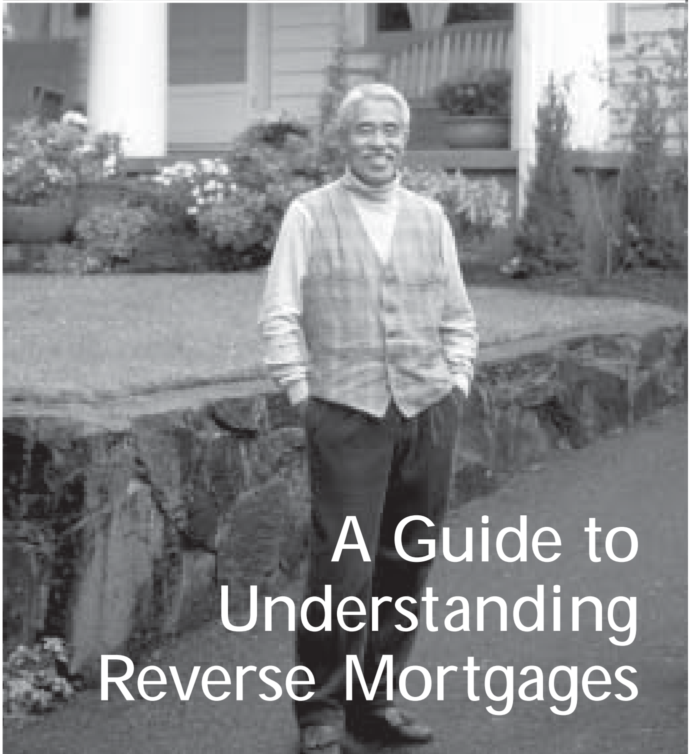
FannieMae

Money from Home



A Guide to Understanding Reverse Mortgages

This publication was developed by Fannie Mae to provide detailed information about two reverse mortgage options, Fannie Mae Home Keeper® and the HUD-insured Home Equity Conversion Mortgage (HECM). This publication is for educational purposes and, as such, individuals should contact a lender to obtain the current terms of the HECM or the Home Keeper Mortgage. Individuals who contemplate obtaining a HECM or Home Keeper Mortgage are also advised to consult with their own financial advisor, accountant, and/or tax consultant with respect to matters discussed in this publication based on their own particular circumstances.

Our Business Is The American Dream

At Fannie Mae, we are in the American Dream business. Our Mission is to tear down barriers, lower costs, and increase the opportunities for homeownership and affordable rental housing for all Americans. Because having a safe place to call home strengthens families, communities, and our nation as a whole.

Money from Home

A Consumer's Guide to
Reverse Mortgage Options

3900 Wisconsin Avenue, NW
Washington, DC 20016-2892

Contents

Introduction **5**

Chapter 1: Considering the HECM **11**
What is a HECM? 11
What are the eligibility requirements? 12
How much can I borrow? 14
How is my loan balance determined? 15
How are the loan proceeds paid to me? 16
How is my monthly payment amount determined? 20
What interest rates are available? 23
What fees are charged? 24
When do I repay the loan? 26
How do I repay the loan? 27
Can I make partial payments on my loan? 27
Will a HECM affect other benefits that I receive? 27
What if I change my mind? 28
Where can I apply for a HECM? 28

Chapter 2: Considering the Home Keeper® Mortgage **31**
What is the Home Keeper Mortgage? 31
What are the eligibility requirements? 32
How much can I borrow? 33
How is my loan balance determined? 34
How are the loan proceeds paid to me? 36
How is my monthly payment amount determined? 39
What is the interest rate? 40
What fees are charged? 41
When do I repay the loan? 43
How do I repay the loan? 44
Can I make partial payments on my loan? 45
Will a Home Keeper Mortgage affect other benefits I receive? 45
What if I change my mind? 46
Where can I apply for the Home Keeper Mortgage? 46

Chapter 3: Assessing your financial needs **51**
Setting your financial goals 51
Evaluating your financial condition 53
Estimating your funding needs 56

Chapter 4: Obtaining a HECM or Home Keeper® Mortgage **63**
Identifying a HECM or Home Keeper lender 63
Contacting a lender 63
Obtaining consumer education 64
Applying for the loan 65
Closing the loan 72
Living with your HECM or Home Keeper Mortgage 72

Glossary **81**

Additional resources **89**

Worksheets **91**
Worksheet 1 — Eligibility checklist 93
Worksheet 2 — Payment plan checklist 95
Worksheet 3 — Financial goals checklist 97
Worksheet 4 — Your financial statement 99
Worksheet 5 — Your cash flow statement 101
Worksheet 6 — Your expense plan 103
Worksheet 7 — Your funding needs 105
Worksheet 8 — Seasonal home maintenance schedule 107

Introduction

Welcome to *Money from Home: A Guide to Understanding Reverse Mortgages*. This publication explains the features and benefits of two types of reverse mortgages — Fannie Mae's Home Keeper® Mortgage and the Housing and Urban Development-insured Home Equity Conversion Mortgage (or HECM) — to help you determine if these are viable options for addressing your financial needs.

Today's seniors, who make up the fastest growing segment of the population, can now enjoy the benefits of having their home pay them back for all the years they spent paying their mortgages.

Reverse mortgages enable eligible homeowners to access the money they have built up as equity in their homes. They are primarily designed to strengthen seniors' personal and financial independence by providing funds without a monthly payment burden during their lifetime in the home. If you are a homeowner age 62 or older, you might be interested in talking with a lender or counselor about reverse mortgages. These products offer a way to borrow against your home equity to create a regular and tax-free source of income or a significant source of ready cash, all while you continue living in your home. And, you don't repay any part of the loan as long as you occupy your home and don't violate any terms and conditions of the reverse mortgage — unlike regular home loans that you begin paying back as soon as the loan is made.

Fannie Mae, in support of its corporate mission to increase the affordability of housing for low-moderate and middle-income Americans, works with various government, local, and social agencies, and our lender partners, to assist older homeowners to remain in their homes and obtain needed cash. Fannie Mae is the investor in two of the most widely used options for this

purpose – the HUD-measured Home Equity Conversion Mortgage (HECM), and Fannie Mae's Home Keeper reverse mortgage. There are other reverse mortgage options available as well. We would encourage any potential borrower to investigate any and all reverse mortgage lenders, HUD-certified counselors, the Internet, friends and family, and nonprofit organizations, such as AARP, American Society on Aging, etc.

Reverse mortgages are called so because instead of making mortgage payments, the borrower actually receives money from the lender. The source of funds for the money received is the equity you have stored in your home. Unlike the loan balance of a conventional mortgage, which becomes smaller with each monthly payment, the loan balance of a reverse mortgage grows larger over time. The loan principal increases with each payment that you receive, and interest and other charges accrue each month on the total funds advanced to you to date.

All reverse mortgages allow you to retain ownership of your home, and many do not require repayment for as long as you live in your home, pay your property taxes and hazard insurance charges, and maintain the property. When you leave your home permanently — upon your death or when you move away — your loan balance becomes due and payable. Your legal obligation to repay the loan can be no more than the market value of your home at the time you leave the property. This means that your lender cannot require repayment from your heirs or from any asset other than your home.

For both reverse mortgage products (HECM and Home Keeper), the borrower (or his or her estate) will never owe more than the loan balance or the value of the property, whichever is less; no assets other than the home must be used to repay the debt. These mortgages have neither a fixed maturity date nor a fixed mortgage amount.

It is important to understand that reverse mortgages are different from traditional "home equity" loans. With a home equity loan or line of credit, you must make regular monthly payments to the lender to repay the loan — in fact, your repayments start as soon as your loan is made. And, as you

might expect, in order to qualify for a traditional home equity loan, you must have sufficient funds to make the monthly loan payments. In addition, if you fail to make the monthly payments on a traditional home equity loan, a mortgage lender can foreclose, forcing you to sell your home to repay the loan. Some home equity loans also require you to re-qualify for the loan each year, and if you do not re-qualify, the lender may require you to pay the loan in full immediately.

In contrast, reverse mortgages, such as the HECM and the Home Keeper Mortgage, do not require monthly repayments to the lender. In fact, repayment of these loans is not required as long as your home remains your principal residence and you remain current in paying your property taxes and hazard insurance charges. In addition, your income is not a factor in qualifying for these loans, nor are you required to re-qualify each year.

Money from Home will provide you with the information you need to consider whether a reverse mortgage is right for you. **Chapter 1** describes the features and benefits of the HECM. **Chapter 2** describes the Home Keeper Mortgage. **Chapter 3** provides a framework that you can use to analyze your finances and your financial planning in making a decision about a Home Keeper Mortgage or a HECM. **Chapter 4** explains what to expect from the loan application process for a HECM or a Home Keeper Mortgage, as well as your ongoing responsibilities as a reverse mortgage borrower. A **Glossary** is included for your reference in understanding the terminology associated with reverse mortgages, and a section entitled **Additional Resources** provides information on organizations you can contact and books you can read for more information on reverse mortgages and other options for older homeowners. Finally, the **Worksheets** that you will be referred to throughout this publication provide structured formats for applying the information in the chapters to your own financing needs.

There are various types of reverse mortgages on the market today, and a thorough discussion of all of them is beyond the scope of this publication. Our goal is to provide you with information on the HECM and the Home Keeper Mortgage. For information about other types of reverse mortgages that

may be available in your area, contact the organizations listed under **Additional Resources**.

You should also be aware that it may be possible to convert your home equity into added income in ways other than a reverse mortgage. These options may include deferred payment loans, property tax deferrals, and sale-leaseback arrangements. In addition, various financial, social service, health, and housing options can serve as supplements or alternatives to home equity conversion. The best way to learn about the wide variety of programs available to seniors is to contact your local Area Agency on Aging. For assistance in identifying your local agency, contact the National Association of Area Agencies on Aging in Washington, DC.

Obtaining a reverse mortgage is a big step that affects what is probably your largest and most important financial asset — your home. The more you know about the Home Equity Conversion Mortgage or the Home Keeper Mortgage, the better able you will be to decide if these are appropriate solutions to your financial needs. We hope that *Money from Home* will help you make a more informed decision about obtaining a reverse mortgage, and we hope that you will share this publication with your friends and family as well as your financial and legal advisors.

Chapter 1
Considering the HECM

Chapter 1
Considering the HECM

Overview

The Home Equity Conversion Mortgage, or HECM, offers senior homeowners a viable option for tapping the equity in their homes, while giving them maximum flexibility to address their particular financial needs. Our goal in this chapter is to answer some of the most commonly asked questions about this type of reverse mortgage, so that you can compare the HECM with the Home Keeper® Mortgage and other financing options that may be available to you as a senior homeowner.

What is a HECM?

The Home Equity Conversion Mortgage is a reverse mortgage designed by the U.S. Department of Housing and Urban Development (HUD) and insured by the Federal Housing Administration (FHA) to give older homeowners a vehicle for converting the equity in their homes to cash.

Like the Home Keeper Mortgage, the HECM allows you to tap your home equity and receive your loan proceeds according to a payment plan that you select — whether it is a lump sum to pay an unexpected hospital bill, or a stream of regular payments to supplement your monthly income. No repayment of your HECM is required until your home is no longer your principal residence — at your death, or when you sell the property, convey title, or do not occupy the property for 12 months. At that time, you or your estate will owe the loan balance or the market value of your property, whichever is the lesser amount. As with most reverse mortgages, the loan is generally repaid through the sale of the property, although sale of the property is not required. Any sales proceeds in excess of the amount owed the lender belong to you or your estate. All Fannie Mae-approved lenders must offer the HECM product as well as the Home Keeper. (In Texas, different rules and regulations apply. Consult a local lender or nonprofit reverse mortgage counselor for a detailed explanation.)

Borrower protection

A significant feature of the HECM is that it is insured under the government's Federal Housing Administration (FHA) insurance program. This program ensures that you will receive all payments due to you as long as you live in your home. It also ensures that your lender will receive full repayment of your loan balance, even if it is greater than the value of your property. The FHA insurance premiums that you pay as a HECM borrower create a reserve fund to cover any losses that might occur.

The FHA insurance on HECMs also protects borrowers and lenders against the risk that the loan balance might, at some time, exceed the value of the home. This means that as long as you continue to occupy your property as your principal residence, you cannot be forced to sell or vacate your home — even if the loan balance exceeds the value of your home or if the fixed term over which you received your monthly payments has expired. In addition, as a HECM borrower, you or your estate will never owe more than your loan balance or the value of your property — *whichever is lower* — and no assets other than your home must be used to repay your debt, because the FHA insurance covers any further financial obligation to the lender.

FHA insurance also protects you against the possibility of lender default. Should your lender fail to make payments to you as agreed in the loan, the FHA will continue making loan advances directly to you.

What are the eligibility requirements?

The eligibility requirements for a HECM are quite simple and do not impose any minimum or maximum limits on income:

- You, and any of your co-borrowers, must be at least 62 years old and either own your home free and clear, or have a relatively low remaining mortgage balance and occupy the property as your principal residence. If you have a low remaining mortgage balance, it must be paid off to obtain a HECM, but this amount can be financed as part of your HECM by taking a cash draw at closing and paying off your present lender. All HECM borrowers must have received reverse mortgage counseling from a HUD-approved housing counseling agency. These sessions may be

conducted with a power of attorney or court-appointed conservator/guardian if the borrower lacks legal competency.

- Your property must be either a one- to four-unit dwelling or a unit in a condominium or planned unit development (PUD) project. Leasehold properties are eligible if they meet HUD and Fannie Mae guidelines. The property need not be debt-free for the borrower to be eligible, but the indebtedness on an existing lien must be paid off at closing. Manufactured housing and units in condominiums and PUDs may be eligible if they are in FHA-approved developments. HECM loans secured by property held in an inter vivos trust, or living trust, are considered eligible if the trust and the borrowers meet HUD requirements. Your lender or nonprofit counselor can help you determine whether a particular trust agreement is eligible.
- You must agree to receive counseling before the HECM application is processed. Counseling will be provided by HUD-approved housing counseling agencies and will focus on the different types of home equity conversion mortgages available, the suitability of a HECM for the borrower, and the alternatives to a HECM.

  In all circumstances, the borrower must receive reverse mortgage counseling. You will receive a Certificate of HECM Counseling, which is valid for 180 days. When more than one homeowner is applying for the loan, as long as at least one homeowner's signature on the certificate is within the 180-day expiration period, the lender may consider the counseling certificate as being valid for all borrowers on the loan. In addition, those borrowers that received the counseling more than 180 days previously, but do not believe that a second session would be useful, may also waive the expiration date in writing.

Fannie Mae began providing telephone exception-based HECM counseling in October of 1999, under the following conditions:

- A HUD-approved counseling agency is not located within 50 miles of the homeowner's residence, or
- The HUD-approved counseling agency has a waiting period

of three weeks or more before it can see the homeowner, or

- The local agencies do not provide reverse mortgage counseling in the homeowner's native language, or
- The homeowner is unable to travel and the local agencies do not make home visits, or
- The local agency charges a fee for reverse mortgage counseling.

How much can I borrow?

Under the HECM program, the maximum amount you can borrow (your "principal limit") is based on a HUD formula that considers three factors:

- the age of the youngest borrower,
- the maximum claim amount, and
- the expected average mortgage interest rate.

Your age — or in the case of couples or joint owners, the age of the youngest borrower — is a consideration because the longer your actual life expectancy, the longer monthly advances will be expected to be paid to you and the longer that servicing fees, mortgage insurance premiums, and interest will be charged to your loan balance.

With a HECM, the "maximum claim amount" also is used to determine the total amount of equity you can borrow from your home. It is the *lesser* of the appraised value of your house *or* the maximum loan amount that can be insured by the FHA for residences in your geographic area. The FHA geographic maximum is less in rural areas and normally higher in high cost urban areas. The maximum in extremely high cost areas, such as Hawaii, may be higher. Note that the FHA maximum loan amounts change periodically. Check with your lender to obtain the latest numbers or the HUD Web site (www.hudhcc.org).

The final factor — the effect of the expected average interest rate on the total advances — simply means that the lower the interest rate on your loan, the lower its cost and the more total funds available for borrowing. Similarly, the higher the

rate, the higher the cost of the loan and the less funds available for borrowing. The expected average interest rate is a long-term rate that is used at closing to determine the borrower's principal limit. For loans to be delivered to Fannie Mae, the expected average interest rate is equal to the sum of the margin determined by Fannie Mae and the 10-year U.S. Treasury security rate in effect at the time the loan is originated.

The highest borrowing limits for a HECM would be for the oldest borrowers living in the highest value homes originated when interest rates are lowest.

How is my loan balance determined?

Your loan balance represents the total amount you owe in principal, interest, and any other loan costs that are not paid for in cash, such as servicing fees, origination fees, and other closing costs. It is important to understand that your loan balance is not the same as your maximum principal amount (the amount you can borrow). Your loan balance (the amount you owe) will grow larger monthly with each loan advance that you receive and/or with interest and other charges such as monthly servicing fees that accrue on the amount borrowed over time.

To better understand how payments of the loan principal and interest charges increase the loan balance of a reverse mortgage over time, refer to **Exhibit 1-1**. It illustrates the first three months in the life of a hypothetical reverse mortgage and assumes that the borrower receives a monthly loan advance of $300 and is charged a monthly interest rate of 1 percent (which equals an annual rate of 12 percent). Other loan charges, such as origination and servicing fees, are not included for the sake of simplicity.

Exhibit 1-1

How a reverse mortgage loan balance grows over time

Assumptions:
- Monthly loan advance = $300
- Compound interest rate = 1 percent per month

After Month	Last Month's Loan Balance	Interest on Last Month's Loan Balance	This Month's Loan Advance	Current Loan Balance	Monthly Increase in Loan Balance
0	0	0	$300.00	$300.00	0
1	$300.00	$3.00	300.00	603.00	$303.00
2	603.00	6.03	300.00	909.03	306.03
3	909.03	9.09	300.00	1,218.12	309.09

In this exhibit, after the first loan advance, the borrower's loan balance is $300. After one month, the borrower receives another loan payout of $300 and is charged $3.00 in interest on the first advance, bringing the loan balance to $603.

In the second month, the borrower receives another $300 payout and is charged $6.03 in interest on the loan balance, bringing the new loan balance to $909.03.

The third month brings another $300 payout and a $9.09 interest charge on the loan balance, for a total current loan balance of $1,218.12.

If we were to show the growth of this loan balance over one year, the borrower's total loan balance would be $3,843 — that is, $3,600 in 12 monthly loan advances of $300 each, plus $243 in interest charges. Similarly, at the end of 10 years, the borrower's total loan balance would be $69,702 — that is, $36,000 in monthly loan advances and $33,702 in interest charges.

How are the loan proceeds paid to me?

With a Home Equity Conversion Mortgage, you receive your loan proceeds according to your choice from among five possible HECM payment plans:

- tenure (monthly payments for as long as you occupy the property),
- term (monthly payments for a specified time period),
- draws on a line of credit,
- modified term (a term plan combined with a line of credit), or
- modified tenure (a tenure plan combined with a line of credit).

In Texas, loan proceed payment options are limited by state law. The line of credit feature is not allowed.

Let's examine the features and benefits of each HECM payment plan in turn.

Tenure option

With the tenure payment plan, you receive equal monthly payments for as long as you occupy your home as your principal residence. Your payments do not increase or decrease and you continue to receive them until your death, or until you sell your home, convey title, or permanently move away.

Although monthly payments with a tenure payment plan are smaller than with a term plan, the payments continue for as long as you live in your home.

Term option

A term plan may be a good choice if you need extra monthly income for a fixed time period — for example, to pay for temporary or extended home health care, or to "tide you over" until you are ready to sell your home and move into group housing or relocate to another community.

With a term payment plan, your monthly payments are generally higher than with the HECM tenure plan, which provides monthly advances for as long as you live in your home. In fact, the shorter the term you select, the higher your monthly payments.

If you choose a term payment plan, keep in mind that when the term ends, your monthly payments stop. You will need to plan ahead to determine what you will do at the end of that term. Although you will no longer receive monthly payments,

you will not have to repay your HECM until you no longer live in your home. However, as long as you remain in your home, you will still be responsible for maintaining your property and for paying all taxes and insurance and will have to do so without the HECM loan proceeds.

Line of credit option

This payment plan option allows you to establish a line of credit equal to your principal limit. You can then request a loan advance of any amount — up to the principal limit — whenever you need it, as long as you occupy your home as your principal residence. Interest is not charged on the line of credit until you make a draw, and then only against the amount that has been drawn.

The unused portion of your line of credit will grow over time. It will increase each month by 1/12 of the sum of the mortgage interest rate and the annual mortgage insurance premium of 0.5 percent. Thus, if the mortgage interest rate is 9 percent, then the unused portion of the line of credit will grow by 0.79 percent (1/12 of 9.5 percent) per month — as long as the total amount of money drawn from the line of credit is less than the principal limit. For example, at a mortgage interest rate of 9 percent, a $4,000 line of credit (with no withdrawals made) would grow in the following way:

Month 1: $ 4,031.60
Month 2: $ 4,063.45
Month 3: $ 4,095.55
Month 4: $ 4,127.91
Month 5: $ 4,160.52

Keep in mind that when your loan becomes due and payable, you will pay the lesser of the loan balance or the appraised value of the property. Any unused portion of the line of credit will not be included in the loan balance and will not be available after the loan is paid.

Modified term option

The modified term option combines the features of a HECM term payment plan with a line of credit. When you take out your HECM loan, you set aside a portion of your principal limit to establish a line of credit that you can draw on at any

time. You then receive the rest of your loan proceeds in equal monthly payments over a fixed term.

If you have already decided when you wish to move out of your home, the modified or standard HECM term payment plan option may be your best choice.

Modified tenure option

The HECM's modified tenure option works like its modified term option — you set aside a portion of your principal limit as a line of credit and receive the rest of your loan proceeds in equal monthly payments — except that your monthly payments continue for as long as you occupy your home as a principal residence.

Both modified payment plans give you some monthly income and the ability to meet irregular or unexpected expenses if they arise.

Payment plan flexibility

HECM is unique in the amount of flexibility in payment plans it offers borrowers. In addition to having five options to choose from, you may change payment plans at any time after you take out your HECM, and as many times as you wish. You may also receive a lump sum at closing to repay the remainder of your old mortgage, to repair or improve your home, or for other needs at closing.

This flexibility allows you to reshape your payment plan as your circumstances change, for example, to lengthen or shorten a term payment plan; to switch between a term plan and a tenure plan; to add a line of credit to either of the monthly payment plans or convert to a line of credit; or to add a monthly payment plan to a line of credit.

If you decide to change payment plans, you do not have to pay any new loan origination fees or closing costs. The only cost is an administrative charge of no more than $20 each time a change is requested.

To choose the type of payment plan that might be right for you, use *Worksheet 2* on page 95.

Repayment security

With all HECM payment plans, you have the security of knowing that repayment is not required until you no longer live in your home, as long as you maintain your property, pay your property taxes and hazard insurance, and abide by your loan agreement. If you select either the term or the modified term plans, you can remain in your home after the end of the loan term without starting repayment. The same is true if you have withdrawn the maximum amount you can borrow under a line of credit. In each case, repayment of a HECM does not begin until you no longer occupy your home as your principal residence.

How is my monthly payment amount determined?

The amount of your monthly payments depends on two factors: your principal limit and the length of time you will receive payments.

The length of time you will receive loan payments is estimated by considering your age and life expectancy, and the term of your payment plan, whether a fixed period of time or your expected tenure in your home.

The longer the fixed term or the younger you are, the more monthly payments you will receive and the smaller each payment will be. Similarly, the shorter the fixed term or the older you are, the fewer payments you will receive and the larger each payment.

Exhibit 1-2 compares typical monthly payments for a HECM tenure plan and a HECM 10-year term plan. **Exhibit 1-3** shows funds available under a HECM line of credit and monthly payments for a HECM with a modified tenure plan and a $10,000 line of credit. Both exhibits show data for seven different ages and five different maximum claim amounts. All figures are approximate and assume an 8.5 percent expected average interest rate; financing of $2,000 in closing costs and financing of the initial insurance premium (2 percent of the maximum claim amount); and the deduction of an initial set-aside sufficient to pay a $30 monthly servicing fee for the life of the loan.

Exhibit 1-2
HECM tenure and 10-year term payment plans

Typical monthly payments for tenure plan

Age	Maximum claim amount $50,000	$85,000	$110,000	$125,000	$155,250
62	$76	$161	$221	$258	$331
65	90	185	253	294	376
70	119	234	316	365	464
75	154	295	396	456	577
80	203	378	503	578	729
85	272	498	659	755	950
90	396	711	937	1,072	1,344

Typical monthly payments for 10-term plan*

Age	Maximum claim amount $50,000	$85,000	$110,000	$125,000	$155,250
62	$124	$263	$362	$421	$540
65	146	299	409	475	607
70	187	368	497	575	731
75	233	446	598	689	872
80	285	532	709	814	1,027
85	340	621	823	943	1,186
90	396	711	937	1,072	1,344

* These numbers are approximate and the above analysis does not include certain financed fees and costs that may change these numbers.

Comparing the tenure and 10-year term plans in **Exhibit 1-2** shows that borrowers of the same age and maximum claim amounts generally receive higher monthly payments with a term plan than with a tenure plan; however, it is important to keep in mind that the higher term payments stop at the end of 10 years. In both plans, older borrowers receive higher monthly payments than younger borrowers.

Exhibit 1-3
HECM line of credit and modified tenure plans

Funds available under a line of credit payment plan

	Maximum claim amount				
Age	**$50,000**	**$85,000**	**$110,000**	**$125,000**	**$155,250**
62	$9,853	$20,878	$28,753	$33,478	$43,007
65	11,594	23,809	32,534	37,769	48,326
70	14,843	29,263	39,563	45,743	58,206
75	18,548	35,453	47,528	54,773	69,384
80	22,690	42,325	56,350	64,765	81,735
85	27,020	49,420	65,420	75,020	94,380
90	31,463	56,558	74,483	85,238	106,928

Typical monthly payments for modified tenure plan with $10,000 line of credit

	Maximum claim amount				
Age	**$50,000**	**$85,000**	**$110,000**	**$125,000**	**$155,250**
62	NA	$84	$144	$181	$254
65	$13	107	175	216	298
70	39	154	236	285	384
75	71	212	313	373	494
80	113	289	414	489	640
85	171	397	558	655	849
90	270	585	811	946	1,218

Comparing the modified tenure plan with a $10,000 line of credit in **Exhibit 1-3** with the tenure plan in **Exhibit 1-2** shows that if a portion of the total amount of loan proceeds is set aside as a line of credit, then the monthly payments are necessarily smaller.

What interest rates are available?

With a HECM, you have a choice of two applied interest rates (depending on their availability through your lender): an annually adjusting rate or a monthly adjusting rate.

Some lenders may offer both types of applied interest rates, while others may offer only one or the other.

The applied interest rate, or initial rate, is the rate at which interest is charged to your loan balance. Once the interest rate adjustment period has been established at closing, it cannot be changed. Rates for the HECM are tied to the one-year U.S. Treasury Security Rate, which is published weekly in most major newspapers (*Wall Street Journal*, *USA Today*, etc.) and is available from the Federal Reserve Web site. Adjustable interest rates (also called "variable rates") can be adjusted within a specified range and time, and vary according to changes in a specified price index. Adjustable rates on mortgages are usually tied to a published market rate of interest.

With a HECM loan, the *annually* adjusting rate cannot increase more than 5 percent over the life of the loan and cannot increase by more than 2 percent in any year. The *monthly* adjusting rate cannot increase by more than 10 percent over the life of the loan, but there is no limit to the amount the rate can change at each monthly adjustment as long as it does not exceed the 10 percent lifetime cap.

Again, a change in the adjustable rate has no effect on the amount or number of loan advances you receive, but causes the loan balance to grow at a faster or slower rate. The lower the rate, the slower your loan balance grows, and vice versa.

Remember, the applied interest rate is different from the expected average interest rate. The applied interest rate is the rate that is charged to the borrower's loan balance throughout the life of the loan. The expected average interest rate is a fixed rate used solely to determine the principal limit.

What fees are charged?

The basic charges (other than interest) on a HECM include four types of fees:

- an origination fee,
- initial and monthly mortgage insurance premiums,
- other closing costs, and
- a monthly servicing fee.

Some of these fees are payable at closing and some are added monthly to the loan balance. Let's review each type of fee in turn.

Origination fee

An origination fee is charged to cover the lender's costs in preparing your initial loan application and processing the loan. HUD now caps the amount of the origination fee that can be charged to the borrower and also permits the borrower to finance the entire amount of the fee. The origination fee amount is limited to the greater of $2,000 or 2 percent of the maximum claim amount on the mortgage.

The borrower is not permitted to pay any additional origination fees of any kind to a mortgage broker or loan correspondent.

Mortgage insurance premiums

As stated earlier, HECMs are insured by the FHA. Mortgage insurance premiums protect the lender against the risk that your loan balance might at some time exceed the value of your home. The mortgage insurance premiums on HECMs consist of two types of charges: a one-time premium at closing of 2 percent of your maximum claim amount and annual premiums of 1/2 percent per year on your mortgage loan balance.

The one-time insurance premium must be paid when you take out your loan and may be financed as part of the loan. The annual insurance premium is divided by 12 and is charged monthly to your loan balance. For a borrower with a maximum claim amount of $92,500, this would mean that a one-time

mortgage insurance premium of $2,000 would be paid at closing. The borrower can either pay this amount in cash or finance the entire amount. Keep in mind that any loan costs that are financed will earn interest over the life of the loan.

Other closing costs

Other closing costs cover any services and charges—such as title search and insurance, appraisals, surveys, credit histories, required inspections, taxes, and recording fees—that are necessary to complete the transaction. These closing costs vary from one locality to another, and may also vary within a single locality based on the property itself and the costs involved in closing the loan.

As a HECM borrower, you are permitted to finance 100 percent of your closing costs. The lender may require you to pay in cash for property appraisals, inspections, or other services performed by third parties, but you can be reimbursed for these costs at closing and add them to your loan balance.

Other possible closing costs

- Appraisal
- Credit report
- Title insurance
- Document preparation
- Recording fees
- Endorsement
- Escrow/settlement fee
- Termite inspection
- Flood zone certification
- Attorney's fees & title exam
- Intangible tax (paid to county)
- State residential funding fee

If you finance your origination fee, your upfront mortgage insurance premium, and other closing costs when you take out your loan, this will reduce your principal limit (the total amount of funds available to you for borrowing), and you will incur interest charges on these financed closing costs.

Servicing fee

The servicing fee on your HECM is a flat fee charged to your loan balance each month that covers the costs of record-keeping in processing your loan advances and mortgage insurance premiums. If you select the annually adjusting interest rate, the servicing fee can be no more than $30 per month. The fee for the monthly adjusting HECM servicing fee can be no more than $35 per month. When you close your loan, a sum that is sufficient to cover this fee over the life of the loan is set aside and deducted from your principal limit. However, the service fee set aside will not be added to your loan balance nor begin to accrue interest until the monthly fee is earned.

Total loan costs

When deciding to obtain a HECM loan, you will want to consider its total cost, not just the interest rate charged to the loan balance. As we will explain in greater detail in Chapter 4, your lender must disclose the total cost of the loan to you in the form of an average annual interest rate. This is the interest rate that would have produced the loan balance expected at the end of a stated term, given the total amount of cash the borrower would have received up to that point.

When do I repay the loan?

Your HECM must be repaid when you sell or convey title to the property to another or upon your death or the death of the last surviving borrower.

A HECM may also become due and payable with HUD approval under the following conditions:

- if you or the last surviving borrower do not occupy the property as your principal residence for 12 consecutive months;
- if you violate any other part of the mortgage agreement, such as failure to repair a property in disrepair, or to pay real estate taxes or hazard insurance premiums, and you are unable or refuse to correct the violation.

Under such circumstances, you would usually be referred to a HUD counselor to see if you could work together to find a solution to the problem.

How do I repay the loan?

Your HECM loan balance is due and payable when you no longer occupy your home (or if you fail to comply with your obligations under your loan agreement, i.e., failure to pay your taxes and insurance). At that point, the HECM must be repaid in one payment — either from the proceeds of the sale of your home or in other ways. For example, you might cash in assets other than your home to pay off the loan; or your heirs might use their own funds or funds from your estate rather than selling the home; or they might take out a mortgage on the home and pay off the HECM with those funds.

Can I make partial payments on my loan?

A borrower may prepay all or part of the outstanding balance at any time without penalty. However, no prepayment of an amount in excess of the outstanding balance is allowed. Repayment in full will terminate the loan agreement. A borrower may choose to make a partial prepayment to preserve more of the equity in the property, or to increase monthly payments, if a payment plan with monthly payments was selected. By reducing the outstanding balance, the borrower increases the net principal limit available.

Will a HECM affect other benefits that I receive?

As with the Home Keeper Mortgage, the HECM benefits that you receive will not affect your Social Security or Medicare eligibility or benefits because these programs are not based on need.

If you receive Supplemental Security Income (SSI) or Medicaid benefits, both of which are based on need, these benefits may be affected by your HECM payments. To determine if HECM payments would affect your particular situation, you must consult your local offices for SSI, Medicaid, and other programs from which you receive benefits, or a specialist in such benefits through your local Area Agency on Aging or nearest legal services office.

What if I change my mind?

Federal law provides you a three-day "right of rescission," that is, the option to cancel the contract without penalty within three business days (including Saturdays). Your loan proceeds are not paid to you until after the end of this period, and interest charges do not start to accrue until the day after you receive the funds.

Where can I apply for a HECM?

Any HUD-approved lender can participate in the HECM program. To identify active HECM lenders in your area, contact your local Area Agency on Aging, your local Office of Housing and Urban Development (HUD), Fannie Mae's Office of Public Information at 1-800-7FANNIE (1-800-732-6643), or AARP. You may also obtain information from the following Web sites:

- www.fanniemae.com
- www.aarp.org
- www.hud.gov

Chapter 2
Considering the Home Keeper® Mortgage

Chapter 2
Considering the Home Keeper® Mortgage

Overview

The Home Keeper Mortgage enables older homeowners to borrow against their home equity without having to repay their loan until the home is no longer their principal residence. Although the Home Keeper Mortgage has many characteristics in common with the Home Equity Conversion Mortgage described in Chapter 1, each product also offers unique features and benefits suited to a variety of borrowing needs. This chapter will provide you with detailed information about the Home Keeper Mortgage, to help compare it with the HECM and other options to determine which alternative might best meet your needs. Fannie Mae approved lenders are required to offer both the HECM and Home Keeper, and some may even have other reverse mortgage products.

What is the Home Keeper Mortgage?

The Home Keeper Mortgage is Fannie Mae's proprietary reverse mortgage product designed to benefit older homeowners who are looking for more ways to tap their home equity. It enables you, as an eligible homeowner, to borrow against the equity stored in your home and use your loan proceeds as you wish. With the Home Keeper Mortgage, your loan proceeds generally can be paid to you in three ways — in monthly payments to supplement your income, as a line of credit that you can draw upon as needed, or through a combination of regular monthly payments and a line of credit. In Texas, payment options differ substantially, so we suggest that you consult a local lender or nonprofit reverse mortgage counselor for a detailed explanation.

Unlike a traditional home equity loan, in which your loan repayment begins as soon as you receive your loan proceeds, the Home Keeper Mortgage does not have to be repaid until you no longer occupy your home as your principal residence— that is, at the time that you sell your house, convey title or move away, or upon your death, or if you violate any covenant of the mortgage loan. At that time, the loan can be paid off

from the proceeds of the sale of the house, or you or your heirs may keep the house if the loan balance can be paid off using other assets.

The amount due when your Home Keeper Mortgage becomes payable will always be the lesser of your loan balance or the market value of your property. This means that even if the amount you have borrowed eventually exceeds the value of your home, you will never owe more than the value of your home. On the other hand, if the proceeds from the eventual sale of your home exceed the amount you owe the lender, the excess proceeds will belong to you or your estate.

Borrower protection

Because Fannie Mae backs the Home Keeper Mortgage, you can be sure of receiving all of the payments that are due to you as long as you live in your home. If, for some reason, your lender were to fail to make payments to you as agreed, Fannie Mae would ensure continued payment.

What are the eligibility requirements?

The eligibility requirements for the Home Keeper Mortgage are quite simple: there are no minimum or maximum limits on income.

- You, and any of your co-borrowers, must be at least 62 years of age, and must all occupy the property as your principal residence. There can be no more than three co-borrowers per loan.
- You must own your home free and clear or have a relatively low remaining balance on your existing mortgage. Any existing mortgage debt must be paid off to obtain a Home Keeper Mortgage, but this amount can be financed with your new loan by taking a cash draw on the new loan when it closes and paying off your previous mortgage.
- Your house must be a single-family, one-unit dwelling, a condominium or any unit in a planned unit development (PUD) project, as long as it meets standard Fannie Mae requirements. A lender or nonprofit reverse mortgage counselor can help you determine whether a particular condominium or PUD is eligible, or you can check our fanniemae.com Web site. Properties held in trust are

eligible if they conform to standard Fannie Mae guidelines on properties held in trusts, and a power of attorney is allowed if it conforms to Fannie Mae guidelines. The mortgage loans must be on property held in fee simple. (The term “fee simple” means that the property may be disposed of as the owner sees fit.) Otherwise, the property must be under a lease for not less than 99 years that is renewable, or under a lease having a remaining term of not less than 50 years beyond the 100th birthday of the youngest borrower. Mortgage loans secured by cooperatives, and two- to four-unit properties, are ineligible. A property requiring repairs in excess of 15 percent of the property value may not be eligible for a Home Keeper loan. Manufactured housing and townhouses must meet standard Fannie Mae guidelines.

- You must agree to attend a consumer education session conducted by a nonprofit or public agency engaged in reverse mortgage counseling or a Fannie Mae counselor. A curriculum approved by Fannie Mae must be used to explain how the Home Keeper Mortgage works, provide you with an estimate of your expected loan advances and loan costs, provide detailed cost comparisons and benefits with HECM, review borrower responsibilities such as paying taxes and insurance maintaining the property, and suggest other sources of consumer information. Fannie Mae’s Reverse Mortgage Assistant (RMA) software (or another approved software) may be used in providing cost comparisons between the Home Keeper, HECM and other reverse mortgage options.

If you meet these basic conditions, you are eligible to apply for the Home Keeper Mortgage. You may use *Worksheet 1: Eligibility checklist* on page 93 to verify your eligibility.

How much can I borrow?

The amount of cash available to you as the borrower (known as your “principal limit”) is determined by the interplay of three factors:

- the age and number of borrower(s),
- the value of your property, and
- the adjusted property value.

Let's take a few moments to consider the implications of each of these factors in turn.

Your age—or, in the case of couples or joint owners, the ages and the number of all borrowers—is a factor in determining the total amount that you can borrow. This is because the longer your life expectancy, the longer that monthly advances will be paid to you, and the longer that servicing fees and interest will be charged to your loan balance. Loan payments to a single borrower will be greater than payments to a couple with identical ages and property values because statistically couples tend to have a longer combined average life expectancy. In cases in which there are three borrowers, the ages of the two youngest borrowers are used to calculate the loan amount.

The value of your property is perhaps the easiest factor to understand because your house serves as security for your loan.

Your "adjusted property value" is the amount of your property value that will be considered in determining the amount of cash available for you to borrow (your principal limit). Annually, Fannie Mae sets a maximum loan amount based upon the average home price in the United States and will not purchase loans on single family homes within the continental United States above this amount. The amount of money available to you from a Home Keeper reverse mortgage will be based on your property value or Fannie Mae's maximum loan amount, whichever is less.

How is my loan balance determined?

Your loan balance represents the total amount you owe in principal, interest, and any other loan costs that are not paid for in cash, such as servicing fees, origination fees, and other closing costs. It is important to understand that your loan balance is not the same as your maximum principal amount (the amount you can borrow). Your loan balance (the amount you owe) will grow larger monthly with each loan advance that you receive and/or with interest and other charges such as monthly servicing fees that accrue on the amount borrowed over time.

To better understand how payments of the loan principal and interest charges increase the loan balance of a reverse mortgage over time, refer to **Exhibit 2-1.** It illustrates the first three months in the life of a hypothetical reverse mortgage and assumes that the borrower receives a monthly loan advance of $300 and is charged a monthly interest rate of 1 percent (which equals an annual rate of 12 percent). Other loan charges, such as origination and servicing fees, are not included for the sake of simplicity.

Exhibit 2-1
How a reverse mortgage loan balance grows over time

Assumptions:
- Monthly loan advance = $300
- Compound interest rate = 1 percent per month

After Month	Last Month's Loan Balance	Interest on Last Month's Loan Balance	This Month's Loan Advance	Current Loan Balance	Monthly Increase in Loan Balance
0	0	0	$300.00	$300.00	0
1	$300.00	$3.00	300.00	603.00	$303.00
2	603.00	6.03	300.00	909.03	306.03
3	909.03	9.09	300.00	1,218.12	309.09

In this exhibit, after the first loan advance, the borrower's loan balance is $300. After one month, the borrower receives another loan payout of $300 and is charged $3.00 in interest on the first advance, bringing the loan balance to $603.

In the second month, the borrower receives another $300 payout and is charged $6.03 in interest on the loan balance, bringing the new loan balance to $909.03.

The third month brings another $300 payout and a $9.09 interest charge on the loan balance, for a total current loan balance of $1,218.12.

If we were to show the growth of this loan balance over one year, the borrower's total loan balance would be $3,843—that

is, $3,600 in 12 monthly loan advances of $300 each, plus $243 in interest charges. Similarly, at the end of 10 years, the borrower's total loan balance would be $69,702—that is, $36,000 in monthly loan advances and $33,702 in interest charges.

How are the loan proceeds paid to me?

The Home Keeper Mortgage allows you to receive your loan proceeds according to your choice of three payment plans:

- tenure (monthly payments for as long as you occupy the property),
- draws on a line of credit, or
- some combination of the two (also known as a "modified tenure" plan).

At loan closing, you select the type of payment plan best suited to your needs, but you may change it over the life of the loan. If you decide to change your payment plan, you may be charged an administrative fee of no more than $50 for the change. This fee can be financed and added to your loan balance. Borrowers may have this fee netted from the payment instead of added to the loan balance.

In Texas, loan proceed payment options are limited by state law. The line of credit feature is not allowed.

Again, let's take some time to consider the features and benefits of each type of payment plan option.

Tenure option

With a tenure payment plan, you receive equal monthly payments for as long as you occupy your home as your principal residence. Your payments do not increase or decrease, and you continue to receive them until your death, as long as you maintain the property and pay property taxes and insurance, or until you sell your home, convey title, or permanently move away and continue to abide by the covenants and terms of the mortgage.

The tenure payment plan is a good choice for homeowners who need a source of extra monthly income on a regular and long-term basis—for example, borrowers who want to remain in their homes for life, but who need more than their current monthly incomes to pay for basic or discretionary expenses. You may elect to stop monthly payments for any period of time and resume them whenever you wish.

Line of credit option

If you select a line of credit payment plan, a revolving line of credit will be established for your use. You can then request a loan advance of any size (up to the limit of your loan amount) whenever you need it, as long as you occupy your home as your principal residence.

With a revolving line of credit you can draw funds, repay the borrowed money, and then borrow those same funds again. Whenever you make such a repayment you increase your borrowing power on a dollar-for-dollar basis, irrespective of the size of the line of credit at the time of loan origination. For example, if you were to make a $500 repayment, you would be able to withdraw $500 at some time in the future. The only limitation is that your line of credit would be automatically terminated if you were to repay it in full, or bring the loan balance to zero. Unlike the HECM, the Home Keeper does not allow for appreciation of the line of credit.

If you choose a line of credit payment plan, your loan balance will consist of the sum of all draws you make on the credit line (including draws at closing) and the accrued monthly interest on those payments, less any amount you have repaid, the servicing fees, and any other fees that you have chosen to finance.

It also may be a good choice if you do not need supplemental monthly income, but are concerned about emergency expenses or other unexpected costs—for example, an emergency health care expense, the replacement of a car or a major home appliance, or an unanticipated property assessment. A line of credit may also be a good choice if your income varies significantly from month to month, or if you simply need extra cash from time to time—for example, to supplement a temporary loss of seasonal or part-time work, to pay taxes, or to cover holiday or vacation expenses.

In short, a line of credit has several advantages: it is available when you need it; if repaid, it can be used again if a future need arises; and it can save you money by avoiding the costs of originating another loan if needed in the future. The line of credit option is not offered in Texas.

Modified tenure option

The modified tenure payment plan combines the features of a tenure payment plan with a line of credit. When you take out your loan, you set aside a portion of your principal limit to establish a line of credit that you can draw on at any time, and you receive the rest of your loan proceeds in equal monthly payments for as long as you live in your home.

Naturally, monthly payments for the modified tenure payment plan will be less than for the tenure plan alone; this is because some of the funds from your principal limit are allocated to the line of credit, leaving fewer funds available for monthly payments.

The modified tenure payment plan may be a good choice if you are looking for some monthly income plus the ability to meet irregular or unexpected expenses.

Payment plan flexibility

As noted earlier, with the Home Keeper Mortgage you have the option to change payment plans at any time (except for borrowers in Texas). A fee is charged by your loan servicer for each change, but this can be financed into your loan balance. As previously stated, borrowers may have this fee netted from the payment instead of added to their loan balance. Texas borrowers may recalculate a plan after partial prepayment which constitutes a change in plan.)

The Home Keeper Mortgage also provides borrowers receiving monthly payments with the option to *suspend* their payments. That is, you can specify a period during which you will not receive your monthly loan payments. You might wish to exercise this option if you receive Supplemental Security Income (SSI) or Medicaid payments, do not have an immediate need for the loan funds, and are concerned about failing the SSI asset test. If you decide to use the payment suspension option, keep in mind that during the suspension period, all

fees and interest (but not the amount of suspended payments) will continue to accrue and be added to your loan balance.

Repayment security

No matter which payment plan you select, keep in mind that with the Home Keeper Mortgage you have the security of knowing that repayment is not required until you no longer live in your home — as long as you abide by your agreement with your lender to pay your taxes and insurance and to maintain your property. Fannie Mae, as the investor in this product, will ensure that you continue to receive any and all funds to which you are entitled, regardless of the payment plan you select or the approved Home Keeper lender with which you work.

How is my monthly payment amount determined?

If you elect the tenure (or modified tenure) option, the amount of your monthly payments is determined by considering the following two factors: your principal limit (the amount of cash available to you as a borrower) and the length of time you are expected to remain in your home, based on life expectancy. We have already discussed the interplay of factors that determine your principal limit. The length of time you will receive loan payments is estimated, based upon actuarial tables by considering the number of borrowers, their ages, and their life expectancies.

Exhibit 2-2
Home Keeper line of credit plans

Typical line of credit plan

	Adjusted Property Value		
Age	**$100,000**	**$150,000**	**$214,600**
75	33,964	53,530	78,236
80	42,462	66,229	96,362
85	51,681	79,911	115,812
90	57,597	88,741	128,406

Note: These net line of credit figures are approximate and assume financing of $4,200, $5,450, or $7,638 in closing costs for the three different home values and deduction for a $30 monthly servicing fee.

Examples of other payment plans were not available at publication time. Contact your lender for sample data on other types of payment plans.

What is the interest rate?

The interest rate on a mortgage is the rate at which interest is charged to your loan balance. The Home Keeper Mortgage carries an adjustable interest rate (also called a "variable interest rate"). Adjustable interest rates are those that can be adjusted within a specified range and time, and that vary according to changes in a specified index. Adjustable interest rates on mortgages are usually tied to a published market rate of interest.

The interest rate on the Home Keeper mortgage is based on both the most current weekly average of the one-month secondary market CD index as published in the Federal Reserve's H-15 Bulletin and a margin determined by Fannie Mae. This means that the interest rate on your loan can change monthly as the index on one-month CD ARMs changes. Your interest rate cannot increase by more than 12 percent over the life of the loan. This limit on the maximum interest rate increase is known as the "rate cap." There is no limit to how much your interest rate may increase per monthly adjustment, as long as the change does not exceed the 12 percent lifetime rate cap. For example, if the original interest rate on your loan was 7 percent, your interest rate could never exceed 19 percent.

A change in the interest rate has no effect on the amount or number of loan advances you receive, but it does cause your loan balance to grow at a faster or slower rate. The higher the interest rate, the faster your loan balance will grow, and vice versa.

What fees are charged?

The basic charges (other than interest) on the Home Keeper Mortgage include three types of fees:

- a one-time origination fee,
- other closing costs, and
- a monthly servicing fee.

Some of these fees are payable at closing (and can be financed in your loan balance), and some are added monthly to your loan balance.

Origination fee

An origination fee is charged to cover the lender's costs in preparing your initial loan application and processing the loan. The maximum origination fee charged to the borrower for a Home Keeper reverse mortgage can be no more than $2,000 or 2 percent of the adjusted property value or purchase price, whichever is greater.

Other closing costs

Other closing costs cover any services and charges—such as a title search and title insurance, appraisal, survey, required inspection, taxes, and recording fees—that are necessary to complete the transaction. These closing costs vary from one locality to another and may also vary within a single locality based on the property itself and the costs involved in closing the loan.

Other possible closing costs

The following items are typical ones included at closing, other than origination fees and points. The cost of each item depends on the state/county where the property is located. Note that actual closing costs will vary by locality, by property, and by the actual services and charges required to close the loan.

- Appraisal
- Credit report
- Title insurance
- Document preparation
- Recording fees
- Endorsement
- Escrow/settlement fee
- Termite inspection
- Flood zone certification
- Attorney's fees & title exam
- Intangible tax (paid to county)
- State residential funding fee

With the Home Keeper Mortgage, all closing costs can be financed in your loan balance. Although your lender may require you to pay in cash for property appraisals, inspections, or other services performed by third parties related to the processing of your loan application, you may request to be reimbursed for these expenses at closing and have these costs added to your outstanding loan balance. If you do decide to finance these and other closing costs, keep in mind that this will reduce the total amount of cash available to you, and that you will be charged interest on these financed closing costs.

Servicing fee

The servicing fee on your Home Keeper Mortgage covers the monthly costs of processing payments and record keeping. This is a flat fee that is charged to your loan balance each month. The fee, which is capped by Fannie Mae, is determined by your lender and established at loan closing and will range between $15 to $35 per month.

When do I repay the loan?

Your Home Keeper Mortgage must be repaid when you move out of your home, or sell or convey title to the property to another buyer, or upon your death or the death of the last surviving borrower.

As a Home Keeper borrower, you have certain obligations to your lender that must be met or the lender may declare your loan due and payable. You will be considered to be in default and the lender may also call the loan due and payable if one of the following conditions exists:

- you (and any co-borrowers) no longer occupy the property as your principal residence (that is, if you fail to occupy the property for more than 12 consecutive months);
- you fail to maintain the property; or
- you fail to perform any obligations under the terms of your mortgage loan.

If the default results from nonpayment of taxes or insurance, or failure to make needed repairs, your lender will have the right to use whatever loan funds are still available to make the necessary payments or repairs. If there are no more loan funds available, then the lender will order an appraisal of the property and issue a repayment notice.

Your responsibilities once you get a reverse mortgage include the following:

- Property taxes: If you fail to pay the taxes due on your home, you will be in violation of your loan agreement, and your lender could make you repay your loan. You can choose to have your property taxes taken directly from the funds you receive. Or, if you get a line of credit from your reverse mortgage, you can draw on it to make your tax payments. You must pay taxes yourself after your line of credit has expired. If you choose the lump sum option, you will be responsible for paying your own taxes.
- Homeowner's insurance: Sometimes called hazard insurance, this must be in place or you will be in default of your loan. You have the option of having your lender

automatically make these payments as long as loan funds are available. Or, if you can get a line of credit from your reverse mortgage, you can draw on it to make your payment. Your lender can use any loan funds that are still available to make your payments.

How do I repay the loan?

When your loan becomes due and payable, it must be repaid in one payment—periodic or monthly payments are not options.

Your Home Keeper loan must be repaid when you sell or convey title to the property to another, or upon your death or the death of the last surviving borrower or:

- if you, or the last surviving borrower, do not occupy the property as your principal residence for 12 consecutive months;
- if you are unable or if you refuse to repair a property in disrepair; or
- if you don't fulfill your other obligations under the loan documents or default on the note, such as if you fail to pay real estate taxes or maintain hazard insurance, and you are unable or refuse to correct the failure.

Borrowers under either of the last two circumstances, are usually referred to a counselor to see if you can work together to find a solution to the problem. If you do not remedy the situation, you can potentially lose your home.

Usually, the loan balance of a reverse mortgage is paid off from the proceeds of the sale of the borrower's home, but the sale of the property is not required as the loan can be repaid in other ways. For example, you might choose to pay off the loan by cashing in assets other than your home. Or, you might be able to refinance your home to pay off the loan if you still have sufficient home equity to do so. (This situation may be unlikely, but it is not prohibited.) Otherwise, your heirs might choose to pay off the loan with their own funds or with funds from your estate rather than sell the property. Alternatively, they might take out a mortgage on the property and pay off the loan with those funds.

The important point to keep in mind is one that we discussed earlier in this chapter. You or your heirs will never owe the lender more than the loan balance or the market value of the property, whichever is less, at the time the loan is declared due and payable. If, for some reason, your loan balance is more than your home is worth when the loan falls due, you pay only the market value of the home.

Can I make partial payments on my loan?

A borrower may prepay all or part of the outstanding balance at any time without penalty. However, no prepayment of an amount in excess of the outstanding balance is allowed. Repayment in full will terminate the loan agreement. A borrower may choose to make a partial prepayment to preserve more of the equity in the property or to increase monthly payments if the borrower selected a payment plan with monthly payments. By reducing the outstanding balance, the borrower increases the net principal limit available.

Will a Home Keeper Mortgage affect other benefits I receive?

The Home Keeper benefits that you receive will not affect your Social Security or Medicare eligibility or benefits because these programs are not based on need. Your Social Security benefits are earned by your period of covered employment, and Medicare is available to anyone age 65 or older, or to anyone under age 65 who receives Social Security disability benefits.

If you receive Supplemental Security Income (SSI) or Medicaid benefits, both of which are based on need, these benefits may be affected by your Home Keeper payments. Eligibility for SSI is based on the amount of your income and your assets. As long as you spend your Home Keeper advances within the month you receive them, they will not affect your SSI benefits. This is because the proceeds of any loan cannot be counted as income. However, if you do not spend your Home Keeper loan advances in the month you receive them, they will accumulate and may be counted by the SSI program as "liquid assets," and this may decrease or even eliminate your benefits. This is also the case for Medicaid benefits in most states.

For this reason, you MUST consult the local offices for SSI, Medicaid, and other programs from which you receive benefits to determine if Home Keeper payments would affect your particular situation. A benefits specialist may also be available to assist you. For more information, we suggest that you contact your local Area Agency on Aging or your nearest legal services office.

What if I change my mind?

Under federal law, the borrower is entitled to a three-day right of rescission (cancellation of the contract without penalty). This means that if you take out a Home Keeper Mortgage and then change your mind, you have the right to cancel within three business days (including Saturdays). After your loan is closed, your loan proceeds are not paid to you until after the expiration of this period. Interest charges on your loan proceeds do not start to accrue until the day after you receive the funds.

Where can I apply for the Home Keeper Mortgage?

You can obtain the Home Keeper Mortgage from any lender authorized by Fannie Mae to offer it. To identify Home Keeper lenders in your area, call your local mortgage lenders to see if they offer the Home Keeper Mortgage, or contact Fannie Mae's Office of Public Information by calling 1-800-7FANNIE (1-800-732-6643) and ask for a list of lenders approved to offer the Home Keeper Mortgage in your area. All lenders that offer the Home Keeper Mortgage must also offer the HUD HECM product as well.

You may also obtain a list of reverse mortgage lenders from our Web site (fanniemae.com) or from the National Reverse Mortgage Lenders Association (reversemortgage.org).

Summary

You are now more familiar with most of the pertinent facts about the Home Keeper Mortgage, and are better prepared to compare its features and benefits with those of HECM. In order to decide if either the Home Keeper Mortgage or the HECM is right for you, it is important to take some time to evaluate your financial situation — not only where you stand financially now, but also what funds you will need to cover your expenses and retain your independence in the years to come. The following chapter will provide a framework for doing just that.

Chapter 3
Assessing your financial needs

Chapter 3
Assessing your financial needs

Overview

As a homeowner who has successfully managed your finances over the years, you will recognize the financial planning process described in this chapter. If, on the other hand, you are managing your own finances for the first time, this chapter will walk you through this process by providing you with step-by-step instructions and practical tips along the way. Financial planning simply involves some careful thought about your financial goals, the patience and willingness to compile complete data on your current financial condition, and a little planning to estimate what you will need to meet your goals.

You should include in your planning and decision-making process any and all support you feel comfortable with, including family members, friends, and trusted support groups (churches, social service agencies, etc.). Your nonprofit reverse mortgage counseling agency also can help guide you through the process. And Fannie Mae's reverse mortgage specialists are only a phone call away and are ready to answer any questions (1-800-732-6643).

Setting your financial goals

To make an informed decision about the HECM or the Home Keeper® Mortgage, you need to identify your financial goals. In this way, you can better determine if either of these types of reverse mortgages will help you achieve your goals.

Clearly defined financial goals give you objectives to work toward and guidelines to evaluate the best means of getting there. Start by thinking about your needs and wants, both now and for the future. Then, ask yourself some basic questions like these:

- Are your finances fairly secure or are you struggling to pay for basic necessities?
- Do you need added income to pay for immediate expenses or to offset a recent change in your financial situation, such as retirement or living alone?
- Do you need funds to cover a current short-term drain on your cash flow, to supplement your regular monthly income, to provide for emergencies and contingencies, or for a combination of reasons?
- Do you enjoy good health or do you need special medical care?
- Do you or your significant other need in-home care?
- Are you thinking about long-term care insurance?
- Do you plan to remain in your home for life, or to relocate at a future time (for example, to live with relatives or in some other housing arrangement)?
- How long do you plan to stay in your home? If you plan to move in five or ten years, where would you like to go?

You may want to speak with your accountant, tax advisor, or financial planner.

You may also want to discuss the reverse mortgage with your family and/or someone you trust.

Thinking about the answers to these and similar questions will help you clarify your goals and will put you in a better position to decide the best way to achieve them.

Remember that the HECM and the Home Keeper Mortgage are but two of a number of tools available to help you achieve your financial goals. If you need cash for only a short period of time, or if you plan to stay in your home for only one or two more years, a reverse mortgage may not be the most cost-effective or appropriate option for you to choose. If you are looking for ways to pay your property taxes, many states have tax relief programs specifically for taxpayers over age 62. However, this varies state by state.

To begin identifying your financial goals, turn to *Worksheet 3: Financial goals checklist,* located on page 97. It lists various short-term and long-term goals often held by older homeowners. Place a check mark next to the items that match your needs and use the category marked "Other" to write in your own more specific goals. Then, try to set some priorities by numbering the checked items in order of their importance.

When you complete the worksheet, you will have a snapshot of what you want to achieve — your financial goals. The next step is to take a close look at your current financial condition to see where you stand.

Evaluating your financial condition

The best way to get a complete picture of your financial condition is to prepare two documents: a *financial statement* and a *cash flow statement.* The financial statement shows what you own and what you owe, and the cash flow statement shows where your money goes.

Preparing a financial statement

A financial statement is nothing more than an inventory of your finances. It lists your *assets* (what you own), your *liabilities* (what you owe), and your *net worth* (the value of all of your assets minus your debts).

A personal financial statement is a key tool for assessing your financial needs because it shows how much money you have on hand and "in storage"—money that you may be able to tap to generate additional income. A personal financial statement will help you in planning your reserve fund, determining how much insurance you need, determining your estate planning needs, and planning your retirement fund.

To prepare your personal financial statement, turn to *Worksheet 4: Your financial statement* on page 99 and follow these steps:

Step 1 — Assemble your records

First, locate and collect all of the records that describe your assets and liabilities. These will include some or all of the following:

- your latest monthly or quarterly bank account statements (checking, savings, brokerage, money market, IRA, 401K, and Keogh accounts and certificates of deposit);
- your most recent tax forms;
- your current statements for your mortgage, automobile loan, credit card, and installment accounts;
- your pension statements; and
- your life insurance policies.

Step 2 — List the value of your assets

Now list the estimated current value of each of your assets. This is the amount of money you would receive if you were to sell or cash in an asset. Note that some of your assets cannot easily be converted to spendable cash, but others are "liquid"—that is, they can be converted to cash quickly and easily without substantial loss.

Try to list your assets and their values as completely as possible. Start with those that are easiest to identify, such as account balances. Then, turn to those that may require some research. If you're unsure of exact values, make conservative estimates. Here are a few pointers:

- To determine the "cash value" of your life insurance, check your policy or ask your insurance agent.
- To find out the current value of your home, check your local newspaper for recent sales of nearby homes similar to yours; call your tax assessor's office; ask a real estate agent for a free home market analysis; or hire a professional appraiser. You should be aware, however, that professional appraisals can be costly and that real estate agents may put some pressure on you to sell your home.
- To determine the current values of your stocks, bonds, or mutual funds, check the newspaper or your statements, or ask your stockbroker.
- To determine the value of your pension plan, ask your plan administrator for an "individual benefits statement," which will show your accrued benefits and provide an estimate of your future benefits.

Step 3 — List the amount of your liabilities
Now list the current amount of each of your liabilities — what you owe (how much you pay for food, utilities, credit card debt, etc.). Remember to include property taxes and insurance charges that are generally paid once or twice a year. Again, make your list as complete as possible. This part of your financial statement should be easier to construct because most of the values will be actual amounts rather than estimates.

Step 4 — Determine your net worth
To determine your net worth, subtract your total liabilities from your total assets. This is your bottom line — the total amount of money you have available on hand and in storage.

Preparing a cash flow statement

Once you know your net worth, it is time to determine where your money goes. This is the purpose of a cash flow statement. It shows the amount of income you receive and how you spend it.

Usually, a cash flow statement shows income and expenses for the preceding year. However, if your finances have changed markedly in recent months (for example, if you recently incurred heavy medical bills or are now living on a greatly reduced income), you may want to begin your cash flow statement from the date of the change in your finances.

To prepare a personal cash flow statement, turn to *Worksheet 5: Your cash flow statement* on page 101 and follow these steps:

Step 1 — Assemble your records
First, locate and collect all of the records that indicate your sources of income and your expenses for the past year. These may include some or all of the following:

- your federal tax return for last year,
- your deposit records,
- your wage statements,
- your checkbook registers,
- your charge card statements, and
- your sales receipts.

Step 2 — List your sources of income
List all of the funds that were available to you as spendable income. Include any savings withdrawals that you spent, as well as gifts, tax refunds, and insurance reimbursements. Do not include the interest earned on an IRA or other earnings that were immediately reinvested.

Step 3 — List your expenses
Now list your expenses, starting with those that are easiest to identify, such as mortgage payments, utilities, taxes, and insurance. Then, list expenses that may take more time to reconstruct from your records, such as food, clothing, transportation, noninsured medical and dental expenses, recreation expenses, gifts, and holiday expenses. Use the entry marked "Other" (or a separate sheet of paper) to record all other expenses, such as dry cleaning, personal care items, books and periodicals, hobbies, and so on.

When you have completed your cash flow statement, your "Total Income" and your "Total Expenses" should balance (or be approximately equal). If these totals are not approximately the same, adjust the "Miscellaneous" entry under the "Expenses" heading to balance your statement.

Step 4 — Analyze your cash flow
Review your cash flow statement to see where your money goes. If you are like most people, you will probably see that you can make more efficient use of your assets. Using your assets more efficiently means *making your assets work for you.* One way to do this, of course, is to use your home equity to generate additional spendable income — income that you can use to meet your financial goals.

Estimating your funding needs

Now that you know your financial goals and your financial condition, you are ready to estimate your funding needs. This is the amount of added income that you will need to meet your goals.

One of the best ways to approach this task is to prepare an *expense plan.* This is a key tool for projecting your future needs.

Preparing an expense plan

An expense plan is a budget that estimates your income and expenses for the future, usually the next 12 months. An expense plan shows all of the income you expect to receive and how you intend to spend it.

To prepare your personal expense plan, turn to *Worksheet 6: Your expense plan* on page 103 and follow these steps:

Step 1 — List all expected income

To estimate your expected income over 12 months, it may be helpful to think of it in several ways.

First, list the sources and amounts of your *regular monthly income,* such as Social Security benefits, pension benefits, and so on. Refer to your cash flow statement for dollar amounts.

You can list "gross income" (before deductions) or "net income" (the amount you actually receive). If you list gross income, be sure to list any deductions, such as tax withholdings, under "Expenses."

Then, list the sources and amounts of any *irregular income,* such as tax refunds, insurance reimbursements, gifts, and so on, averaging each amount that you expect to receive into 12 monthly "paychecks."

Now enter the "Annual Total" for each source of income in the far right column.

Step 2 — List all expected expenses

Again, to estimate your expected expenses over 12 months, it may help to think of your expenses in several ways.

First, list your *regular monthly expenses,* such as food, utilities, savings, transportation, personal care items, and so on. Refer to your cash flow statement for dollar amounts.

Then, list your *non-monthly expenses,* averaging each expense that you expect to incur into 12 monthly "bills." Examples of non-monthly expenses include the following:

- income taxes;
- property taxes;
- insurance charges;
- seasonal home maintenance (weatherizing, snow removal, yard work, etc.);
- auto license, registration, and maintenance;
- holiday gifts; and
- vacation expenses.

Now enter the "Annual Total" for each expense in the far right column.

Step 3 — Compare your total expected income and expenses

Add up the "Annual Totals" for your income and expenses and compare these figures. Your "Total Income" and "Total Expenses" should be approximately the same.

If your total expected expenses exceed your total expected income, this will indicate your immediate funding needs. The next task is to project your future funding needs.

Projecting your future needs

To estimate the funds you will need to meet your goals, assemble your financial goals checklist and your expense plan *(Worksheet 3* and *Worksheet 6).* Then, turn to page 105 and complete *Worksheet 7: Your funding needs* following these steps:

Step 1 — List your goals by priority

Write in your financial goals in order of their importance to you. Refer to the financial goals checklist *(Worksheet 3)* that you completed when you began this chapter. Having completed *Worksheets 4* through *6,* you may find that your goals have changed. Remember that nothing is cast in stone. It's likely that you will refine your goals even more.

Step 2 — List the annual cost of each goal

Now, list the actual or estimated amount of funds you would need annually to meet each goal.

Start with the goals for which you have actual values. For example, if one of your goals is extra income to cover the tax and insurance payments on your home, find the "Annual Total" expenses for these items from your expense plan *(Worksheet 6).*

Then, list the annual amounts for goals that require estimates, such as funds for medical care, home modifications, or simply an increase in your monthly income.

Step 3 — Total the annual costs
Add up the annual costs of all these goals. The total shows your funding needs *for one year.*

To calculate the added income you would need *each month,* divide the annual total by 12.

To calculate your funding needs as a *lump sum,* multiply the annual total by the number of years you plan to remain in your home.

With these figures in mind, you will be well prepared to discuss your funding needs with your financial advisor and/or your mortgage lender. You may also want to revisit *Worksheet 2: Payment plan checklist* and reevaluate your funding options to select the plan or combination of plans that best suits your situation as you now see it.

Summary

We hope the worksheets in this chapter have helped you get a clearer picture of your financial goals, your current financial condition, and the amount of funding you will need to cover your expenses and maintain your independence. You are now in a better position to decide if a HECM or a Home Keeper Mortgage can meet your needs. In the final chapter, we explore what is involved in obtaining a HECM or a Home Keeper Mortgage, should you decide to do so. We also discuss your responsibilities after you become a HECM or a Home Keeper borrower.

Chapter 4
Obtaining a HECM or a Home Keeper® Mortgage

Chapter 4
Obtaining a HECM or a Home Keeper® Mortgage

Overview

In this final chapter, we explain the steps involved in obtaining a HECM or a Home Keeper Mortgage. The attention to the needs of older homeowners that is evident in the features and benefits of both types of loans also extends to the loan application process. The procedures for obtaining either loan are relatively easy and flexible. Both loans also require your willingness to attend a consumer education session, which protects you against the possibility of overlooking alternative options that may be less expensive or more appropriate for your needs. This chapter closes with a discussion of how you can meet your ongoing responsibilities—and reap the ongoing benefits of life—as a HECM or Home Keeper borrower.

Identifying a HECM or Home Keeper lender

- AARP
  Home Equity Information Center
  601 E Street, NW
  Washington, DC 20049
  Phone: (202) 434-6042 (recording in English)
  Web site: www.aarp.org
- Fannie Mae
  Customer Resource Center
  3900 Wisconsin Avenue, NW
  Washington, DC 20016
  Phone: 1-800-7FANNIE (1-800-732-6643)
  Web site: www.fanniemae.com

Contacting a lender

For many borrowers, obtaining a HECM or a Home Keeper Mortgage begins with a phone call or a visit to a lender, whether a commercial bank, savings and loan, mortgage company, or credit union. You may also start the process by contacting a local nonprofit agency that provides information on housing or senior services.

If you call or visit a lender first, the lender will describe the general characteristics and eligibility requirements of the reverse mortgage products it offers, and will send or give you a package of information that includes a loan application for the type of loan in which you're interested, as well as information on how to obtain the necessary consumer education.

In some cases, the lender may help you complete the loan application before you attend a consumer education session. However, the lender cannot actually accept your loan application for a HECM or a Home Keeper Mortgage (or order an appraisal, or take any other action that would result in a charge to you), until you have attended the consumer education session.

Obtaining consumer education

Before obtaining a HECM or a Home Keeper Mortgage, you are required to attend a consumer education session. The purpose of this session is to explain the legal and financial consequences of obtaining a HECM or a Home Keeper Mortgage, as well as other options that may be available to you. This session ensures that you understand the obligations of your loan agreement, and that you do not overlook alternative options that may be more appropriate or cost-effective solutions for your funding needs.

If you are applying for a Home Keeper Mortgage, your lender will let you know where you can obtain consumer education. Acceptable consumer education may be obtained from the following:

- a HUD-approved counseling agency engaged in reverse mortgage counseling, or
- a Fannie Mae counselor.

The provider must use information and materials developed by Fannie Mae (including this publication). *If you are applying for a HECM,* the consumer education is provided by HUD-approved public and nonprofit counseling agencies. Your lender already may have given you a list of HUD-approved counselors in your area. If not, contact your local Area Agency on Aging or the HUD Housing Counselor referral line at 1-800-569-4287.

Before attending any information session, be sure to ask what information you need to bring to the counseling session. We also encourage you to ask interested family members and professional advisors, such as your lawyer or accountant, to accompany you to the session.

Once you have completed the education session, and you and the education provider both feel that you have all of the information that you need to make an informed decision, you will receive a certificate. This certificate is not an opinion or decision by the education provider about the suitability of a reverse mortgage for you, nor is it an indication that your loan will be approved. It simply indicates that you have been provided with the information needed to make an informed decision about your loan. By signing the certificate, you certify that you have received the information. You may want to make an extra copy of the certificate for your own files, because the original must be submitted as part of your reverse mortgage loan application.

Applying for the loan

After your counseling session, if you decide to apply for a HECM or a Home Keeper Mortgage, it’s time to contact your lender for a loan interview. If you are applying for the loan with one or two co-borrowers, all should attend the loan interview. There are separate counseling sessions and certificates for the HECM and Home Keeper reverse mortgages. You must obtain the appropriate counseling and give that specific certificate to your lender when applying for a reverse mortgage.

If the lender has not already done so, the lender will provide you with a loan application, a loan agreement, a good faith estimate of your settlement costs, and other loan documents that must be completed as part of your loan application. The lender will also review your options by providing you with a computer-generated printout comparing the projected costs and payments available to you for the type of loan and payment plan you have chosen. Your counselor must use the software for both types of loans, in order to give you an estimate of the amount you can borrow. You should also bring and discuss the estimate with your lender.

The following exhibit provides a hypothetical example of a computer-generated printout provided by lenders to prospective Home Keeper and HECM borrowers.

Exhibit 4-1
Sample projections for Reverse Mortgages

Assumptions

Borrower's Birthdate:	June 15, 1924
Borrower's Age:	78
Co-Borrower:	None
State:	California
Funding Date:	July 25, 2002
Monthly Service Fee:	$30

	HECM	**Home Keeper**
Initial Interest Rate	3.74%	5.25%
Expected Interest Rate	6.47%	NA
Estimated Home Value	$200,000	$200,000
Maximum Claim/Adjusted Home Value	$200,000	$200,000
Original Principal Limit	$136,800	$ 93,282
Origination Fee	$ 4,000	$ 4,000
Other Fees	$ 1,700	$ 1,700
Upfront Mortgage Insurance	$ 4,000	None
Servicing Fee Set Aside*	$ 4,069	$ 3,405
Total Cash or Line of Credit Available** (Net Principal Limit)	$123,031	$ 84,177

* This is not a fee and thus is not part of the loan balance. The Total Cash or Line of Credit Available is reduced by this amount, and this amount is used to fund the monthly service fee.

** The amount of cash remaining available to you in a HECM Line of Credit grows larger each month until you withdraw all the remaining funds.

Exhibit 4-1 provides an example of a comparison of the various costs and loan limits for a HECM and a Home Keeper reverse mortgage. As you can see, this borrower (age 78) with a home value of $200,000 has different principal limits and costs for the HECM and the Home Keeper. The interest rates used in this projection reflect actual rates posted in 2002.

Submitting your loan application

If you need help in completing your loan application, the lender will be happy to provide it. The lender will also work with you to gather any required loan documentation, including:

- your clear title to the property;
- an appraisal of the property and, if necessary, a property inspection;
- a survey of the property (in some cases); and
- your credit history (for the HECM loan program only).

A title search is required to determine that you are indeed the owner of the property. The title search also attempts to uncover any "encumbrances" on the title. These include liens (legal claims against the property) filed by creditors in an attempt to collect unpaid bills, as well as liens filed by the IRS for nonpayment of taxes. Any such claims against the property must be paid at or before closing. Default on any government-insured loan program could make you ineligible for a HECM.

The lender will arrange to have the property appraised to determine its current market value. This information is required in order to determine your maximum claim amount for a HECM and adjusted property value for a Home Keeper Mortgage. The lender will also arrange to have the property inspected to ensure that it is in good condition; usually the appraiser also performs this inspection.

Appraisers and property inspectors will be required to note any structural problems, needed roof repair, or other property damage that could decrease the value of the property if left untreated. For both types of loans, repairs to correct these problems will be required. If the cost of the required repairs is less than 15 percent of the adjusted property value, the repairs may be completed after closing, using your loan proceeds. In such cases, a portion of your loan proceeds must be set aside at closing to cover the cost of the required repairs. The required repairs must be completed within 12 months of the date on which the loan closed. If the repairs are

not completed, the lender has the right to suspend your payments. In some cases, the lender may also require a survey of the property before closing. This is done to confirm that the property's boundaries are those described in the loan agreement and that the dwelling is not located in a flood zone.

If you apply for a HECM, the lender will also order a credit report for you and any co-borrowers. A poor credit history will not necessarily prevent you from obtaining a HECM loan. Only a default on a debt owed to the federal government will have an impact. All delinquent debts to the federal government must be paid by the time the loan is closed.

The cost of these various services may be financed as part of your loan, or you may pay the costs directly. If you choose to finance these closing costs, keep in mind that this will reduce the total amount you can borrow.

Checking your loan agreement

Your Home Keeper loan agreement, or your FHA loan agreement for the HECM, is the primary contract that binds you and the lender, so you will want to check it carefully. Be sure that you understand the information provided in all sections of the loan agreement.

The Home Keeper Mortgage loan agreement is organized as follows:

- *Article 1* explains the method and terms of loan advances.
- *Article 2* defines the terms used in the loan agreement.
- *Article 3* explains the conditions of all loan advances made to you, including initial advances, set asides, charges and fees, and payments under each type of payment plan.
- *Article 4* explains the charge that the lender must pay if a payment is not made to you as described in *Article 3*.

- *Article 5* describes the conditions under which a lender is no longer required to make loan payments to you.
- *Article 6* explains what will occur at the time the loan becomes due and payable.
- *Article 7* explains miscellaneous items not included elsewhere in the loan agreement.

The HECM loan agreement is organized as follows:

- *Article 1* defines the terms used in the loan agreement.
- *Article 2* explains the conditions of all loan advances made to you, including initial advances, set asides, charges and fees, and payments under each type of payment plan.
- *Article 3* explains the charge that the lender must pay if a payment is not made to you as described in *Article 2*.
- *Article 4* describes the conditions under which a lender is no longer required to make loan payments to you.
- *Article 5* confirms HUD's commitment to make loan payments to you if the lender fails to do so.
- *Article 6* explains miscellaneous items not included elsewhere in the loan agreement.

If you do not understand the terms of your loan agreement, or if any aspect is unclear, discuss it with your lender or with your housing counselor. For a general overview of the characteristics and obligations associated with both types of loans, refer to **Exhibit 4-2,** which illustrates at a glance the main features of the Home Keeper Mortgage and the HECM.

Exhibit 4-2
Home Keeper Mortgage and HECM loan features

Features	Home Keeper Mortgage	HECM
Payment plans (plans vary in Texas)	• Line of credit • Tenure • Modified tenure • Term • Modified term	• Line of credit • Tenure • Modified tenure
Loan limits	Current Fannie Mae loan limit*	Varies based on your geographic area.*
Eligible properties	Single-family homes, units in planned unit developments, and manufactured housing.	One- to four-unit homes, condos, units in planned unit developments, and manufactured housing.
Factors used to determine loan amount rate	• Number of borrowers • Age(s) of borrowers • Adjusted property value (the lesser of the property value or the maximum loan amount set by Fannie Mae – current loan limit*)	• Age of youngest borrower • Expected average interest • Maximum claim amount (the lesser of the property value or the FHA loan limit based on your geographic area.*)
Borrower protection	Should lender fail, Fannie Mae will make sure that payment to borrowers continue.	Should lender fail, FHA will make direct payments to borrower.
Counseling	Counseling session required.	Counseling session required. Must be provided by HUD-approved counseling agency prior to loan application.
Upfront cost	• Origination fee - no more than $2,000 or 2% of adjusted property value • Property appraisal • Property inspection • Other closing costs • Credit history • Other closing costs	• Origination fee - no more than $2,000 or 2% of maximum claim • Mortgage insurance premium — 2% of maximum claim amount • Property appraisal

*Please contact a reverse mortgage lender to determine loan limit for your area.

Interest rate	One rate available: One-month adjustable rate based on one-month secondary market CD index • No per adjustment cap • Lifetime cap of 12%	Two rates available: Annual adjustable rate based on one-year Treasury index • Per adjustment cap of 2% • Lifetime cap of 5% One-month adjustable rate based on one-year Treasury index • No per adjustment cap • Lifetime cap of 10%
Fees over life of loan	• Servicing fee — Standard	• Servicing fee — Standard • Monthly mortgage insurance premium — 1/2% per year on loan balance
Line of credit	Full line of credit available at origination – no growth	Unused portion of line of credit grows over time

Agreeing to a repair addendum

If your property needs repairs, you will be asked to sign a "repair addendum" as part of your loan agreement. Repairs must be completed by the date stated on the repair rider.

Basically, this agreement involves setting aside a lump sum of funds from your loan to pay the costs of the materials and the labor for repairs. When the repairs are completed, the funds are paid jointly to you and the contractor(s) who made the repairs.

If you have a HECM loan, the lender may require one or more inspections by a HUD-approved inspector during the course of the repair work. When all repairs have been completed and inspected, the funds are paid out and added to your loan balance.

All checks to contractors for repairs will require two signatures (one from the borrower and one for the contractor). This is to protect you, the consumer.

Closing the loan

When your HECM or Home Keeper Mortgage is approved, you will have a set period of time to accept the offer and close the loan. When you are certain that you understand the terms of the loan, and you are certain that these terms meet your needs, you are ready to close.

One week prior to closing, your initial interest rate will be determined and you will finalize the terms of your payment plan. At that time, you will decide whether you wish to make a draw on your loan at closing. As explained earlier, you will not receive any funds until the end of the three-day right of rescission period.

Living with your HECM or Home Keeper Mortgage

When you obtain your HECM or Home Keeper Mortgage, congratulations will be in order! Not only will you begin to enjoy the benefits of access to your home equity, you will also have the satisfaction of knowing that you can remain in your home for as long as you choose. Naturally, you will also have to fulfill some basic responsibilities as a HECM or Home Keeper borrower. These responsibilities are the final concerns we turn to now.

Paying your property taxes

Timely payment of your property taxes is a basic responsibility of homeownership. You may pay your property or real estate taxes yourself, or ask your lender to pay them with funds from your loan. If you choose to have them paid by your lender and you have a tenure, term, or modified payment plan, your taxes will be estimated annually and your monthly payments will be reduced by 1/12 of that amount. Keep in mind that you will not pay interest on the amount withheld by the lender to pay taxes until the lender actually pays your tax bill.

If you have a line of credit payment plan, your taxes will be paid by the lender with a draw on your line of credit when the taxes are due. Keep in mind that when the line of credit is used up, the lender will no longer be able to make payments on your behalf. At that time, you will need to make arrangements to pay those taxes yourself.

Federal tax law allows you to deduct taxes on real property paid to state or local jurisdictions. This means that as a homeowner, your real estate or property taxes are deductible on your federal tax form, even if your lender makes the actual payments. Some states also allow you to take deductions for these taxes.

Paying hazard insurance premiums

Homeowner or hazard insurance protects you and the lender from loss in the event that your home is damaged or destroyed by fire or storm. Adequate hazard insurance and timely payment of the premiums is another responsibility of living with your HECM or Home Keeper Mortgage. Flood insurance is also required if your property is located in a flood zone.

You may already have adequate hazard insurance coverage. If not, you will want to shop for a policy that provides good protection. The policy should include provisions for inflation adjustments or should provide for claims to be settled on a replacement cost basis. Most homeowners purchase a package of insurance that includes:

- personal liability insurance, which protects you against a lawsuit by someone who is injured on your property or injured by a member of your family (except in an automobile accident); and
- coverage against fire, theft, and certain weather-related hazards.

It is your responsibility as the borrower to have an active hazard insurance policy even when you are absent from your home. You will be instructed to inform your insurance company of any extended absences from the home, since failure to do so may result in cancellation of the policy.

Again, you may pay your hazard insurance premiums yourself or ask your lender to pay them with funds from your loan. If you choose to have the premiums paid through your loan and you have a tenure, term, or modified payment plan, your

premiums will be estimated annually and your monthly payments will be reduced by that amount. If you have a line of credit payment plan, the premiums will be paid by the lender with a draw on your line of credit when the premiums are due.

Flood Insurance

If it is determined that your dwelling is located in a flood zone (as determined by U.S. Geological Survey Flood Maps), you will be required to obtain and maintain a flood insurance policy.

If you elect to pay your taxes and insurance yourself, your lender may require you to provide proof of payment. If the lender has no such evidence, the lender may pay the amount due and charge it to your loan balance. Remember, the failure to make timely payments of taxes and insurance may result in your lender declaring your reverse mortgage due and payable.

Reviewing your interest rate change notice

The HECM and the Home Keeper Mortgage are adjustable rate mortgages. The interest rate will be adjusted every year or every month depending on the type of mortgage or adjustment period you select. With a HECM, your lender will notify you of an upcoming interest rate change at least 25 days before the new interest amount is charged to your loan balance. With a Home Keeper Mortgage, your lender will provide you with a quarterly statement detailing the interest rate changes for the previous three months. Again, it is your responsibility to review your notice of an interest rate change to ensure that it conforms to your understanding of the terms of your loan.

Reviewing your statement

Your lender is required to send you a statement summarizing your mortgage activity. If you have a Home Keeper Mortgage, your lender is required to send you quarterly statements. If you have a HECM, your lender must send you an annual statement by January 31 of each year. Regardless of which loan you choose, the statement should list the following items:

- all monthly payments and draws on a line of credit;
- all payments made on your behalf for mortgage insurance (for a HECM), servicing fees, and taxes and hazard insurance (in cases where you have asked the lender to

make these payments);

- total interest accrued;
- loan balance at the end of the statement period;
- principal limit and net principal limit; and
- original line of credit, net line of credit and either outstanding cash balance if you have a Home Keeper Mortgage or outstanding balance if you have a HECM (if you have a line of credit).

It is your responsibility to review your statement to ensure that it conforms to your understanding of the terms of your HECM or Home Keeper Mortgage.

Certifying residency

One of the primary conditions of a HECM or Home Keeper Mortgage — and for many older homeowners, one of the most desirable benefits — is that you continue to live in your home as your principal residence. Your lender will need to continue to verify this fact as long as the mortgage is outstanding. Each year, your lender will ask you to certify by mail that the property remains your principal residence. You also must advise your lender if you are going to be absent from your home for more than two months.

Changing your payment plan

Payment plan flexibility is a unique feature of the HECM and Home Keeper programs. If your personal circumstances or finances undergo a change, you may want to adapt your payment plan to fit your changing needs.

You may request a change of your reverse mortgage payment plan at any time (restrictions may apply in Texas). The type of changes you may request include:

- receiving an unscheduled payment,
- suspending your payments for a period of time,
- changing from one form of payment plan to another,
- changing the size of your monthly payments,
- adding a line of credit to your loan (which will also reduce

the size of your monthly payments), and

- changing the term of your payments (for HECM loans only).

If you make such a change, you will likely be charged a fee. This per-change fee will be added to your loan balance when the change is made.

Prepaying your loan

As your personal and financial circumstances change, you may find that you are in a position to repay a portion or all of your HECM or Home Keeper Mortgage. You may repay either loan in whole or in part, at any time, without penalty.

If you choose to repay your loan in full, this will terminate your loan and you will not be able to make any further draws. However, you can repay a portion of your loan balance without terminating your loan; for example, a partial repayment can be used to increase your monthly payments or to set up a line of credit (line of credit option not available in Texas).

Maintaining your property

Your property is a substantial asset, and you will want to see that it is maintained as it always has been in order to preserve the most equity in it after your loan is paid off. As a reverse mortgage borrower, you are responsible for maintaining your property in a condition at least equal to the condition it was in when your loan was closed. Your lender may occasionally make "drive-by" inspections of your property (examining the exterior of the property, but not entering the house). If problems are identified, you will be required to correct them.

Routine maintenance can extend the life of your property and help you to avoid extensive repairs. Such maintenance includes routine care of roofs, downspouts, siding, plumbing, heating and cooling systems, and so on. You may wish to use some of your loan proceeds to pay for help in maintaining your home.

To make sure that all home maintenance tasks are completed, put together a seasonal checklist and mark your calendar so you will remember to use it, or provide it to those persons who

help you maintain your home. Once you have established a routine, the maintenance will not take long, and it will be well worth the effort. You can tailor *Worksheet 8: Seasonal home maintenance schedule* on page 107 to reflect your own home's systems.

Improving your home's energy efficiency

Beating the high cost of utilities is a concern of most homeowners, so you will also want to evaluate how you can conserve energy. There are many low-cost ways to improve the energy efficiency of a home. Some questions you might consider are these:

- Does your home need more insulation?
- Are there storm windows and storm doors all around?
- Are weather stripping and caulking needed?
- Would a heat pump make your heating system work more efficiently?
- Is the attic properly ventilated?

Again, this is not a one-time effort. Your spring and fall inspection tours should include home maintenance procedures aimed at cutting your energy bills.

Summary

You now know the basic procedure for obtaining a Home Keeper Mortgage or a Home Equity Conversion Mortgage (HECM), as well as the ongoing responsibilities that come with the benefits of being a reverse mortgage borrower. We hope that this information and the information presented in previous chapters helps you to take a realistic look at whether the HECM or the Home Keeper Mortgage is right for you. We urge you, as we have a number of times in this publication, to discuss the HECM and the Home Keeper Mortgage with your financial advisor, your attorney, and with the members of your family. We also encourage you to explore other options. In this way, you can make an informed decision about the best way to meet your financial needs. Also, feel free to contact a Fannie Mae reverse mortgage specialist at 1-800-732-6643 with any

Glossary

Glossary

Adjustable-rate mortgage (ARM). A mortgage whose interest rate changes over time based on an index.

Adjusted property value. The portion of the total appraised value of a property used in determining the borrower's principal limit for a Home Keeper mortgage. It is equal to the lesser of the Government Sponsored Enterprise loan limit or the appraised value of the property.

Applied interest rate. The annually or monthly adjusting rate that is charged to the HECM borrower's loan balance.

Appraisal. A professional opinion of the market value of a property.

Appreciation. An increase in the value of a house due to changes in market conditions or other causes.

Assessed value. The valuation placed upon property by a public tax assessor for purposes of taxation. This may not always be equal to the appraised or market value of the property.

Asset. Anything owned by a business or individual that has commercial or exchange value.

Average annual percentage rate. The actual interest rate (or the total yearly cost of the mortgage stated as a percentage of the loan amount), which takes into account the base interest rate and the costs of primary mortgage insurance and loan origination fees (or points).

Cash flow statement. A statement of income and expenses during a given period.

Clear title. Ownership of the property that is free of liens and legal questions as to ownership of the property.

Closing. The occasion when a borrower signs loan documents, including the mortgage or deed of trust, and when closing costs are paid. Also called “settlement.”

Closing costs. The costs to a borrower to obtain a mortgage loan. These costs may include an origination fee, title insurance, appraisal, survey, attorney fees, and prepaid items such as taxes and insurance.

Contingency. A condition that must be met before a contract is legally binding; something liable to happen.

Counseling session. An information session that takes place prior to loan application and that covers the following topics with the potential borrowers: eligibility, loan amount, loan costs, borrower responsibilities, loan repayment, sources of disinterested consumer information on reverse mortgages, and other options for older homeowners.

Credit report. A report of an individual’s credit history prepared by a credit bureau and used by a lender in determining a loan applicant’s creditworthiness. For HECMs, the credit report is used only to determine if there are liens against the property.

Deed. The legal document conveying title to a property.

Default. Failure to make mortgage payments on a timely basis or to comply with other conditions of a mortgage loan.

Deferred payment loan. A loan that must be used to make home repairs or improvements; generally offered by local government agencies.

Deficiency judgment. A judgment for the balance of a debt after the collateral has been exhausted.

Depreciation. A decline in the value of property; the opposite of “appreciation.”

Equity. The difference between the market value of a property and the homeowner's outstanding mortgage balance or other claims against the property.

Expected average interest rate. A fixed rate used to determine the amount of money available to the HECM borrower at loan closing. Not the same as the "applied interest rate" (the interest rate charged to the borrower's loan balance).

Expense plan. A statement or budget of probable income and expenses usually projected for the coming year.

Financial statement. A written statement of financial status (or "net worth") that lists and compares assets and liabilities.

Flood insurance. Insurance required for properties in federally-designated flood areas.

Foreclosure. The process by which a lender sells a mortgaged property (in order to be repaid) if the mortgage loan is in default or the borrower fails to comply with the terms and conditions of the mortgage note.

Funding date. The date on which the originating lender first disburses funds to the reverse mortgage borrower.

Gross income. Total income before deductions are taken.

Hazard insurance. Insurance to protect the homeowner and the lender against physical damage to a property from fire, wind, vandalism, or other hazards.

Home Equity Conversion Mortgage (HECM). A type of FHA-insured reverse mortgage.

Home equity loan (or line of credit). A loan that allows a homeowner to borrow against home equity and pay back the funds in monthly installments; generally, the homeowner must meet income qualifications and the lender can foreclose on the home if the borrower fails to make monthly payments.

Homeowner's insurance. An insurance policy that combines liability coverage and hazard insurance.

Initial interest rate. See **Applied interest rate.**

Interest. A fee charged for borrowing money.

Liabilities. Amounts owed.

Lien. A legal claim against a property.

Liquid assets. Assets that can be converted to cash quickly and easily without substantial loss.

Loan balance. The outstanding balance of a reverse mortgage loan; an amount equal to principal plus financed fees plus all accrued interest.

Loan proceeds. Payments to a borrower through a reverse mortgage.

Loan termination. The point at which a reverse mortgage loan is satisfied, either because of a prepayment in full or because a loan has become due and payable, and the borrower has paid the loan balance or the value of the property, whichever is less.

Maximum claim amount. The lesser of a home's appraised value or the maximum loan amount that can be insured by the FHA for one- to four-family residences in the area where the property is located.

Mortgage. A legal document that pledges a property to the lender as security for payment of a debt.

Mortgage insurance premium. The fee paid by a borrower to FHA or a private insurer for mortgage insurance.

Mortgage note. A legal document obligating a borrower to repay a loan at a stated interest rate; the agreement is secured by a mortgage.

Net income. Total income after deductions are taken.

Net principal limit. The total amount of money available to the borrower at any time over the life of the loan. An amount equal to the principal limit less any payments to the borrower and any financed costs.

Net worth. Assets minus liabilities.

Origination fee. A fee charged to the borrower to obtain a mortgage loan.

Payment plan. The manner in which loan proceeds are paid out to the borrower.

Principal. The actual amount of loan proceeds paid to a borrower, or paid on behalf of a borrower, exclusive of interest charges.

Principal limit. The total amount of money available to a borrower at loan origination.

Property inspection. An examination of the exterior and interior of a property to determine its condition.

Property tax deferral. A loan that defers payment of property taxes for as long as the borrower lives in the home.

Real estate agent. A person licensed to negotiate and transact the sale of real estate on behalf of the owner.

Refinancing. The process of paying off one loan with the proceeds from a new loan secured by the same property.

Repair rider. A clause in a reverse mortgage loan agreement that requires a homeowner to make home repairs or improvements as a condition of closing the loan.

Required repairs. Any repairs identified in the property inspection relating to structural problems, needed roof repair or other property damage that could decrease the value of the property if left untreated.

Reverse mortgage. A mortgage that pays a homeowner loan proceeds drawn from accumulated home equity; reverse mortgages permit the borrower to retain homeownership, and generally do not require repayment as long as the borrower remains in the home.

Rising debt. In a reverse mortgage, debt that increases over time as loan proceeds are paid out and as interest accrues on the outstanding loan balances.

Sale leaseback. A type of home sale plan in which the seller of a home immediately rents it back on a long-term or lifetime lease; the seller receives monthly payments from the sale of the home and pays monthly rent at a market rate.

Servicing fee. The fee paid by a borrower to cover record-keeping and other administrative costs of processing mortgage payments.

Set aside. Funds for specified uses that are netted out when determining the borrower's principal limit.

Settlement. See **Closing.**

Survey. A drawing showing the legal boundaries of a property.

Title. A legal document establishing the right of ownership.

Title search. A check of title records to ensure that a person is the legal owner of a property and that there are no liens or other claims outstanding on the property.

Additional Resources

Additional Resources

In addition to the resources mentioned in this publication, contact the following organizations for more information on home equity conversion options or other options for elderly homeowners:

AARP
Home Equity Information Center
601 E Street, NW
Washington, DC 20049
(202) 434-6042
Provides consumer information to members on a wide variety of products and services aimed at the older consumer.

American Bar Association
Commission on Legal Problems of the Elderly
740 15th Street, NW
Washington, DC 20005-1009
(202) 662-8690
Publishes an attorney's guide to home equity conversion.

National Association of Area Agencies on Aging
1112 16th Street, NW
Washington, DC 20036
(202) 296-8130
Maintains a nationwide "Eldercare Locator Number," a toll-free number for information about public programs for older Americans. Call 1-800-677-1116.

National Center for Home Equity Conversion
7373 147th Street West, Suite 115
Apple Valley, MN 55124
Clearinghouse for information on home equity conversion.
Publications available.

If you wish to read more about reverse mortgages and other housing options for seniors, the following publications may be of interest:

Facts for Consumers — Reverse Mortgages
Available from:
The Federal Trade Commission
Office of Consumer/Business Education
Washington, DC 20580

Home Made Money, by Ken Scholen
Available from:
AARP
Home Equity Information Center
601 E Street, NW
Washington, DC 20049

Your New Retirement Nest Egg, by Ken Scholen
Available from:
The National Center for Home Equity Conversion
7373 147th Street West, Suite 115
Apple Valley, MN 55124

Worksheets

Worksheet 1
Eligibility checklist

Use this checklist to determine your eligibility for a Home Keeper® Mortgage or a Home Equity Conversion Mortgage (HECM).

	Yes	No	Uncertain
Are you (and any other co-borrowers) at least 62 years old?	_____	_____	_____
Do you own your home free and clear or nearly so?	_____	_____	_____
Is your home a single-family residence (for a Home Keeper Mortgage), or a single-family or two- to four-unit residence or condo (for a HECM)?	_____	_____	_____
Is your home your primary residence?	_____	_____	_____
Do you expect your home to remain your primary residence as long as you participate in the Home Keeper or HECM loan program? (These loans become due and payable if you leave your home permanently or for more than 12 consecutive months.)	_____	_____	_____
Are you willing to attend a free counseling session offered by a Fannie Mae-approved counselor (for the Home Keeper Mortgage) or a HUD-approved counselor (for the HECM)?	_____	_____	_____

If you checked "Yes" to all of these questions, you are eligible for a Home Keeper Mortgage or a HECM. If you checked "No" or "Uncertain" to any questions, consult a Fannie Mae- or HUD-approved lender or mortgage counselor to determine your eligibility.

Worksheet 2
Payment plan checklist

Use this checklist to consider the type of payment plan that might best suit your needs.

Term payment plan

Yes No

__ __ Do you need extra monthly income for a fixed period of time?

__ __ Do you plan to sell your home and move to other housing at a future time?

__ __ Do you want to receive the highest possible monthly loan payment?

__ __ Will you be able to manage your expenses when your payments stop?

Tenure payment plan

Yes No

__ __ Do you want extra monthly income for as long as you remain in your home?

__ __ Do you hope to remain in your home for life?

__ __ Are regular, long-term monthly payments more important to you than the highest possible monthly payment?

Line of credit payment plan

Yes No

__ __ Would you prefer to request a loan advance when you need it, rather than receive monthly loan payments?

__ __ Does your income vary significantly from month to month, or season to season?

__ __ Do you need extra cash from time to time (for example, for taxes, or holiday or vacation expenses?)

__ __ Do you have special concerns about your ability to pay for emergency or other unexpected expenses (for example, health care costs or the replacement of a major appliance or car)?

Modified term/tenure payment plan

Yes No

__ __ Do you need extra monthly income *and* the ability to draw advances as needed to meet irregular or unexpected expenses?

__ __ Do you want to reserve some of your home equity as protection against the risk of having to leave your home, or for other reasons?

__ __ Would the flexibility to draw on a line of credit compensate for smaller monthly payments?

Worksheet 3
Financial goals checklist

Check the items that best describe your financial goals. Then, number your goals in order of their importance.

What are your short-term goals?

Covering your immediate expenses

- Basic necessities _____ _____
- Utilities _____ _____
- Taxes/ insurance _____ _____
- Home repairs/replacement of appliances _____ _____
- Home modifications _____ _____
- Housekeeping help _____ _____
- Non-insured medical or dental expenses _____ _____

Increasing your financial security/independence

- Freedom from budgeting worries _____ _____
- Reserve fund for contingencies _____ _____
- Income for leisure/retirement _____ _____

Other

- ____________________________________ _____ _____
- ____________________________________ _____ _____
- ____________________________________ _____ _____
- ____________________________________ _____ _____
- ____________________________________ _____ _____
- ____________________________________ _____ _____
- ____________________________________ _____ _____
- ____________________________________ _____ _____
- ____________________________________ _____ _____
- ____________________________________ _____ _____

Worksheet 3
Financial goals checklist (continued)

What are your long-term goals?

Increasing your monthly income

- For a limited time ____ ____
- For as long as you remain in your home ____ ____
- To draw on as needed ____ ____

Providing for heath-care expenses

- For a limited time ____ ____
- For ongoing care ____ ____
- As a reserve for contingencies ____ ____
- Help with home maintenance requirements ____ ____
- Help with tax and insurance costs ____ ____
- Remaining in your home until a more workable arrangement is made ____ ____
- Making your home more livable (modifications for easier access, greater efficiency, etc.) ____ ____
- Remaining in your home for life ____ ____

Providing health-care expenses

- For your spouse ____ ____
- For other heirs ____ ____

Other

- ____ ____ ____
- ____ ____ ____
- ____ ____ ____
- ____ ____ ____
- ____ ____ ____
- ____ ____ ____
- ____ ____ ____
- ____ ____ ____

Worksheet 4
Your financial statement

Date______________

Assets (what you own)	**Current Value**
Checking accounts	________________
Savings accounts	________________
Money market accounts	________________
Brokerage accounts	________________
Certificates of deposits	________________
IRA accounts	________________
Keogh accounts	________________
Other retirement accounts	________________
Pension	________________
Life insurance (cash value)	________________
Annuities	________________
Bonds	________________
Mutual funds	________________
Stocks	________________
Other securities	________________
Receivables (money owed you)	________________
Home	________________
Other real estate	________________
Automobiles	________________
Other personal property:	________________
Household furnishings	________________
Jewelry	________________
____________________	
____________________	
____________________	
____________________	
____________________	
____________________	
Total assets	$______________

(continued)

Worksheet 4
Your financial statement (continued)

Liabilities (what you own)		**Current Value**
Home mortgage	$	____________
Other mortgages		____________
Automobile loans		____________
Credit card balances		____________
Installment accounts		____________
Contracts/money borrowed		____________
Income taxes		____________
Pledges		____________
Other:		
__________________		____________
__________________		____________
__________________		____________
__________________		____________
__________________		____________
__________________		____________
__________________		____________
Total liabilities	$	
Total assets	$	____________
Less total liabilities	-	____________
Net worth	$	____________

Worksheet 5
Your cash flow statement

For the period from __________ to __________

Income	Total	
Interest/dividends	$	____________
Social Security benefits		____________
Pension/retirement plans		____________
Reimbursement/refunds		____________
Sale of investments		____________
Other:		
____________________		____________
____________________		____________
____________________		____________
Total Income	$	____________
Expenses		____________
Mortgages		____________
Utilities (heat, electricity, water, garbage, telephone)		____________
Food		____________
Income taxes		____________
Property taxes		____________
Insurance:		
__________________		____________
__________________		____________
Debts:		
__________________		____________
__________________		____________
Transportation		____________
Medical/dental not covered by insurance		____________
Clothing		____________
Recreation		____________
Education		____________
Gifts		____________
Holiday expenses		____________
Other:		
__________________		____________
Total Expenses	$	____________

Worksheet 6
Your expense plan

Year ___________

Income	*Jan.*	*Feb.*	*Mar.*	*Apr.*	*May*	*June*	*July*	*Aug.*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	**Annual Total**
Total Income													**$**

Expenses	*Jan.*	*Feb.*	*Mar.*	*Apr.*	*May*	*June*	*July*	*Aug.*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	**Annual Total**
Total Expenses													**$**

Worksheet 7
Your funding needs

List your financial goals by priority (use Worksheet 3). Then, list the annual cost of meeting each goal (use Worksheet 6 or make reasonable estimates).

Financial goal	**Annual cost**
____________________	$ ________
____________________	________
____________________	________
____________________	________
____________________	________
____________________	________
____________________	________
____________________	________
____________________	________
____________________	________
____________________	________

Total annual funding needs $ ________

Monthly funding needs
(divide annual total by 12) $_______ ÷ 12 = __________

Lump sum funding needs
(multiply annual total by
number of years you plan to
remain in your home) $_______x______ = __________

Worksheet 8
Seasonal home maintenance schedule

Fall Checklist

Outside

_______ Check all weather stripping and caulking around windows and doors; replace or repair as needed.

_______ Check for cracks and holes in house siding; fill with caulking as necessary.

_______ Remove window air conditioner or put on weatherproof covers.

_______ Take down screens (if removable). Clean and store.

_______ Check storm windows and doors; clean and repair as needed.

_______ Put storm windows and doors back up (if removable).

_______ Drain outside faucets.

_______ Clean gutters and drain pipes, so leaves do not clog them.

_______ Check roof for leaks; repair as necessary.

_______ Check chimney for damaged chimney caps and loose or missing mortar.

_______ Check chimney flue; clean obstructions. Make sure damper closes tightly.

Inside

_______ Check insulation wherever possible. Replace or add as necessary.

_______ Have heating system and heat pump serviced; have humidifier checked; change or clean filters or furnace.

_______ Drain hot water heater and remove sediment from bottom of tank; clean burner surfaces; adjust burners.

_______ Check all faucets for leaks; replace washers if necessary.

_______ Check and clean humidifier in accordance with manufacturer's instructions. Clean refrigerator coils.

Worksheet 8
Seasonal home maintenance schedule (continued)

Spring checklist

Outside

_______ Check all weather stripping and caulking around windows and doors, especially if you have air conditioning.

_______ Check outside house for cracked or peeling paint. Caulk and repaint as necessary.

_______ Remove, clean, and store storm windows (if removable).

_______ Check all door and window screens; patch or replace as needed.

_______ Put screens up (if removable).

Inside

_______ Replace filters on air conditioners.

_______ Check dryer vent, stove hood, and room fans; clean them.

_______ Change or clean filters on furnace.

_______ Check seals on refrigerator and freezer; clean refrigerator coils; clean burner surfaces; adjust burners.

_______ Clean fireplace; leave damper open for improved ventilation if home is not air conditioned.

_______ Check basement wall and floors for dampness; if too moist, remedy as appropriate.

_______ Clean dehumidifier according to manufacturer's instructions.

_______ Check leaky faucets and replace washers as necessary.

_______ Check attic for proper ventilation; open vents.

_______ Clean drapes and blinds; repair as needed.

About Fannie Mae

This publication was prepared by Fannie Mae to help you understand more about your options in home finance. You may not be familiar with us. We started over 60 years ago and since that time our mission has never changed. We make sure mortgage money is available for people in communities all across America. But, because we don't make loans directly to home buyers, many Americans don't know who we are. You still go to your local bank, savings and loan, or mortgage company for a home loan. Fannie Mae works with local lenders to make sure they don't run out of money.

Fannie Mae has been the nation's largest source for reverse mortgage funding since 1989.

3900 Wisconsin Avenue, NW
Washington, DC 20016-2892
CT066L07/02©1997-2002, Fannie Mae. All rights reserved.

w w w . f a n n i e m a e . c o m